



Equity markets turned in a very impressive performance last week as they took heart from some economic statistics that while still on the weak side came in slightly better than expected. Perhaps it is an indication that investors believe the worst is over in the banking sector, and this could certainly be construed to be the case as the news of further write-downs and a chunky capital raise from UBS failed to pull markets lower. Also aiding equities was a better performance from credit markets as spreads continued to tighten on the back of the US Treasury's plans to reform financial markets. Not even a downbeat testimony to Congress by Fed Chairman Bernanke during which he warned of the possibility of contraction in the US economy (he fell short of using the 'R' word) and a much bigger than expected fall in non-farm payrolls could de-rail the gains this week. While this move is impressive it must be put in the context that the last week was one of the lowest volume weeks of the year so far. The really big test for markets comes over the next few weeks as the Q1 reporting season kicks off. With rising unemployment, falling house prices, rising commodity prices and tighter lending conditions all acting as significant headwinds for the global economy, the outlook for earnings will be monitored closely. Also of significance for the markets this week will be rate decisions by the Bank of England and the ECB. Market expectations are for a 25 basis point cut by the Bank of England as the UK economy continues to weaken, however with one eye on inflation, it may hold fire. The ECB, with eyes only for inflation, are expected to leave rates on hold.

## TRADING IDEAS, EARNINGS & PREVIEWS

### BP

Price: £5.28  
P/E: 9.3x  
Div: 4.8%  
Target: £5.90

**Fundamental view** : BP's Q4 2007 production of 3.907m barrels of oil equivalent per day was 2% higher year on year, the group's first production growth in 9 quarters. In conjunction with its full year results' announcement in February, a significant restructuring plan was announced to generate annual cost savings of c.\$1.5 bn from 2009, by reducing staff numbers by 5,000. However, the most important announcement for the share price was a 31% dividend increase and a future commitment to favour dividends over buybacks, demonstrating the group's strong cash generation.

**Next catalyst** : As a result, BP remains on course to pay a current year dividend yield of c.4.8%, paid quarterly, which pays investors for waiting for an upward re-rating of the share price over the coming months. Our view is that further evidence of the resumption of production growth in the Q1 2008 results' announcement tomorrow three weeks, 29th April, could be a catalyst for such a re-rating, and that the shares are attractively valued at their current rating of 9.3x 2008 eps of 57p, particularly given the current high range for the oil price

**Chart view** : Stock has rallied off strong support in the 500 area and has broken trend resistance at 522. Positive outlook

### BUY

### Lloyds TSB

Price: £4.57  
P/E: 9.2x  
Div: 8.7%

**Fundamental view** : Lloyds TSB is due to hold its AGM and release an interim management statement, on 8th May. Given that over 40% of its commercial property exposure was originated in 2007, Lloyds would appear the most vulnerable of the UK banks to the fall in UK commercial property prices suffered over the past 9 months. It would also appear unlikely to generate any earnings growth in 2008, with the consensus forecast for eps to fall by 3% to 49.5p. As a result, our view is that the bank does not deserve to trade at a premium to the UK sector, yet at 9.2x 2008 eps and at 2.1x book value, it currently trades at sector premiums of 21% and 62% respectively.

**Next catalyst** : As a result, there is the potential for the Lloyds TSB share price to underperform the UK bank sector in the short term, and we recommend a **SHORT** position at current levels. The bank's interim management statement early next month could act as a catalyst for such underperformance, and the recommendation may also provide a hedging benefit for clients with existing LONG positions in the UK bank sector. **Always trade short positions with a stop loss in place.**

**Chart view** : As a result, there is the potential for the Lloyds TSB share price to underperform the UK bank sector in the short term, and we recommend a **SHORT** position at current levels. The bank's interim management statement early next month could act as a catalyst for such underperformance, and the recommendation may also provide a hedging benefit for clients with existing LONG positions in the UK bank sector.

### SHORT

### Ryanair

Price: €2.95  
P/E: 9.5x  
Target: €4.50

**Fundamental view** : Last week, Ryanair announced 19% year on year passenger growth for March to 4.48m passengers, exceeding its full year target of 50m passengers by 0.93m. In addition to showing that the airline is continuing to generate strong passenger growth despite a weaker UK economy, the passenger data showed a 1% year on year improvement in the load factor to 78%. In the past, year on year improvements in the load factor have proven useful lead indicators of subsequent increases in the average fare.

**Next catalyst** : The disclosure of any such average fare increase in the airline's full year results' announcement on 3rd June could act as a positive catalyst for the share price. However, a more immediate catalyst could be any further correction in the oil price as a result of continuing weak US economic data. The airline's upcoming share buyback programme of up to €200m, which is expected to be completed between now and 5th June, could also act as a near term support for the share price :

**Chart view** : Stock is attempting to break medium-term trend resistance in the €2.95 area. However, problems are not yet over and a sustained move above €3.00 is needed to alter the negative outlook

### BUY

### BHP Billiton

Price: £16.17  
P/E: 12.5  
Div: 1.7%  
Target: £14.50

**Fundamental View** : BHP Billiton shares have fallen by 5% since the beginning of the year. BHP has had an incredible run over the last 5 years as a result of strong commodity prices. This run could be about to come to an end, declines in commodities prices over the last few days suggest that the market is beginning to accept that future commodity prices could be considerably lower than current levels. A mild recession would significantly decrease global demand for commodity inputs, and similarly affect commodity prices. Although the company trades at about 12x 2008 earnings, given how vulnerable these earnings are, we feel the company is overvalued at current levels.

**Next Catalyst** : The next catalyst for BHP will be moves in commodity prices, as well as changes in the global economic outlook. There is still the possibility of M&A activity in the sector, we would expect BHP to get a boost if its takeover of Rio Tinto is unsuccessful, and so caution is required. **Always trade short positions with a stop loss in place.**

**Chart view** : Stock is approaching strong resistance at 1700 and considering the size of recent gains is unlikely to move higher without some prior consolidation. Any strength should be used to exit long positions.

### SHORT

### BMW

Price: €35.72  
P/E: 8.4x  
Div: 2.9  
Target: €34

**Fundamental View** : Last Thursday we reinitiated our short trading call on BMW following its 17% gain since March 17<sup>th</sup>. We believe that BMW is one of the most exposed to the current downturn in global economic activity given that it operates primarily in the luxury end of the autos market. A clear indication of that slowdown was reflected in BMW's disappointing US auto sales for March (BMW generates c. 25% of its revenue in the US) which showed a further 5.4% decline and have now fallen 9.2% for this year. On an EV/EBITDA valuation, BMW trades at a premium to its peer group at 5.2x versus 4.6x for the sector, a rating that we feel is undeserved in the current economic environment.

**Next Catalyst**: The next catalyst for BMW is on 29/04/2008 when the group is due to report its first quarter results. We expect the company to report a 5% drop in EPS to €0.97 with revenue increasing by 5% to €12.6bn. We also expect BMW to provide a cautious outlook given the slowing global economy. For BMW, we recommend placing the stop-loss at €38.20 slightly above its key resistance level. **Always trade short positions with a stop loss in place.**

**Chart view** : Medium-term trend is negative with stock continuously failing to hold onto any gains made. Only a break of €40 will change the outlook. More weakness expected.

### SHORT

### IAWS

Management meeting review

We were fortunate to have IAWS CEO Owen Killian visit our offices on Friday, to review IAWS's recent Interim financials. IAWS performed exceptionally well in the six months ending 31<sup>st</sup> January, and we expect to this trend to continue despite difficult market conditions. IAWS have managed to increase margins despite the significant increases in their input costs. The US is an increasingly important source of profits for IAWS, so a resurgence in the dollar would have a significant positive impact on earnings. With a conservative debt profile, IAWS are well placed to weather ongoing turbulence in the credit markets, and have the ability to make strategic acquisitions in the future. We remain optimistic on the sector and IAWS remains our preferred stock.

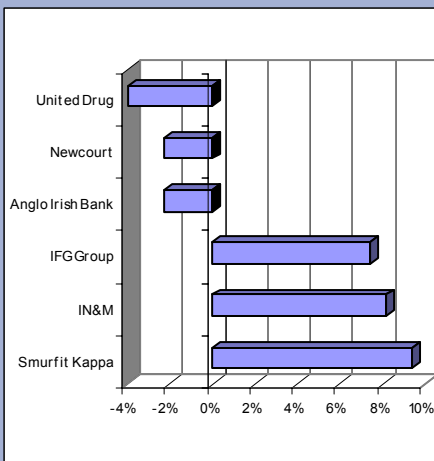
**EARNINGS: MON:** (UTV, EGM) (EasyJet, Traffic) (Alcoa, Q1) **TUES** (Getmobile, FY) (888, FY) **WED:** (IAWS, Ex Div) (Conergy, Analyst Conf.) (Daimler, AGM) (Volvo, AGM) **THURS:** (AerLingus, EGM) (Thomas Cook, AGM) (IFG, FY) (Nestle, AGM) (Wal-Mart, March Sales) **FRI:** (Cadbury Schweppes, MS & AGM)

**ECONOMIC:** Tues (US Pending Home Sales, FOMC Meeting), Wednesday (UK Industrial and Manufacturing Production, Euro-Zone GDP), Thursday (BoE and ECB Interest Rate Decisions, US Trade Balance, Jobless Claims), Friday (US Import Price Index, Michigan confidence)

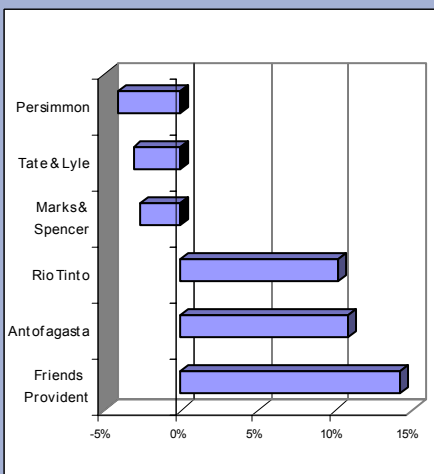
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
31/03/08-04/04/08

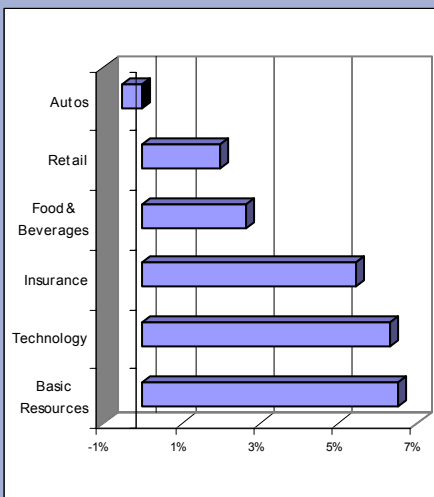
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	6.0%	-15.23%	Central Bank says Irish Banks have limited exposure to subprime writedowns and other risky assests.
Aviva	6.4%	-8.25%	Aviva appoints Andres Moneta as CEO of Aviva Europe..
BP	5.0%	-17.24%	BP makes oil discovery in the Gulf of Mexico.
IN&M	9.2%	-10.30%	IN&M CEO Tony O'Reilly takes stake to 27.1%.
CRH	5.2%	1.18%	US highway construction rises marginally in February.
Hewlett Packard	0.7%	-8.70%	HP become the first in technology sector to release list of its largest suppliers.
IAWS	3.3%	-1.92%	Hiestand, in which IAWS has a 30% stake, reported 31.4% rise in net profit to CHF48.3m.
IL&P	1.9%	2.43%	CEO, denis Casey is confident over IP&M's mortgage portfolio.
Microsoft	4.5%	-21.06%	Reports suggest Microsoft are playing a waiting game with their bid for Yahoo.
Paddy Power	0.3%	2.68%	Peer, Worldspreads, highlights emerging market opportunity.
Ryanair	5.4%	-40.69%	Ryanair March traffic figures rise 19% to 4.48 million, with load factor up 1% percentage point to 79%.
Vodafone	1.3%	-19.33%	Bear Stearns raises Vodafone to outperform from peer perform.

DD Unrealised gain YTD	-4.29%	ISEQ YTD	-7.19%
DD Realised gain YTD	-11.10%	FTSE YTD	-7.47%
DD Total YTD	<u>-6.50%</u>	Average performance	<u>-7.33%</u>
Relative Performance		<u>0.83%</u>	

\* DD Return (Includes dividends & FX changes since stocks inclusion)

## What it says in the 'Sundays'

Company	Paper	Headline
FBD Holdings	S. Independent	Eureko plans buyout of FBD worth €1.2 bn
Banks Probe	S. Tribune	Hedge Fund trading surges despite
Tesco	S. Tribune	Shares fall after US pause for breath
IN&M	S. Business Post	O'Reilly buys defensive stock and hires advisers
BA	S. Business Post	Crash Landing for Walsh
Pernod Ricard	S. Times	Mixed response for drinks giant

## Upcoming Corporate Visits

### COMPANY

### PRESENTATION DATE

Kenmare

11/04/2008

Paddy Power

May (tbc)



## Last Weeks Moves

### Equities

	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	6352	3.2%	-8.4%	3.1%	7.4
FTSE 100	5947	4.5%	-7.9%	4.1%	12.0
DAX	6763	3.1%	-16.2%	2.9%	11.7
Dow Jones	12609	3.2%	-4.9%	2.5%	14.6
S&P 500	1370	4.2%	-6.7%	2.2%	20.7
Nasdaq	2371	4.9%	-10.6%	0.9%	20.1
EuroStoxx 50	3180	5.0%	-13.7%	4.2%	11.0
Nikkei 225	13293	3.7%	-13.2%	1.5%	15.4

### Sector

	Weekly move%	YTD move %
Basic Resources	6.535	-1.742
Technology	6.337	-17.83
Insurance	5.469	-6.554
Banks	5.45	-13.947
Chemicals	4.75	-6.279
Oil & Gas	4.452	-14.391
Construction & Materials	4.064	-9.405
Healthcare	3.82	-10.565
Utilities	3.632	-13.641
Financial Services	3.388	-11.853
Travel & Leisure	3.179	-17.156
Telecom	3.034	-18.771
Industrials	2.893	-13.834
Personal & Household Goods	2.755	-13.854
Media	2.684	-17.246
Food&Bev	2.633	-7.189
Retail	1.993	-15.743
Autos	-0.535	-14.462

### Commodities

	Current	Change YTD
Crude Oil	\$106.23	+10.9%
Gold spot	\$913.79	+9.6%

### Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.574	+7.9%	1.45-1.55
EUR-GBP	0.789	+7.4%	0.74-0.78
EUR-JPY	159.7	-2.0%	165.0

### GDP Growth

	Current	Year End (est)
Ireland	5.00%	3.00%
Euro Zone	2.50%	2.00%
UK	3.10%	2.00%

### Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.74%	3.50%
UK	5.25%	5.98%	4.50%
US	2.25%	2.73%	2.50%

### Credit Market Summary

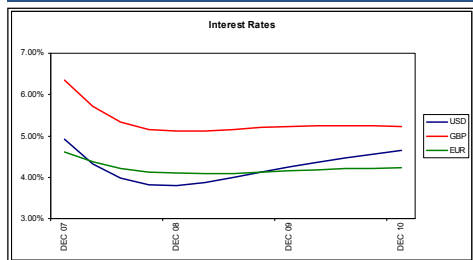
A very strong week as credit markets outperformed equity markets on positive sentiment regarding liquidity injections for banks and the likelihood of strong Federal intervention in ailing credit markets. Credit markets saw spreads tighten 15% in the high yield names and 24% in the investment grade names however the outperformer was the financial index which tightened 27% this week. While these are the tightest levels since February this positive sentiment is fragile and likely technically driven rather than driven by fundamentals as volume is low and the tightening from the CDS world has not translated to the cash market.

## Credit Sector Movements

**Chemicals.** Tighter in the sector – very strong in the sector this week; Bayer had a volatile week, spreads tightened 25% despite rumours of an imminent profit warning damaged the share price, prompting a company spokesperson to refute the rumours. BASF tightened 40% after announcing emerging market and R & D expansion plans.

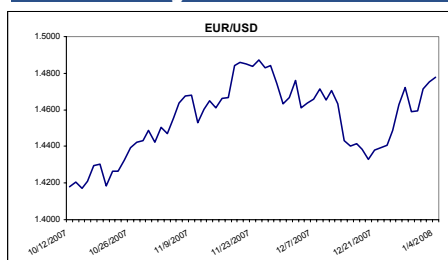
**Food/Beverages:** Tighter in sector – Cadburys tightened 24% this week after Cazenove identified Cadbury as a possible takeover candidate once the beverage arm has been de-merged. Elsewhere Compass tightened 33% after competitor Sodexo announced strong sales growth in Q1.

## Interest Rate Outlook

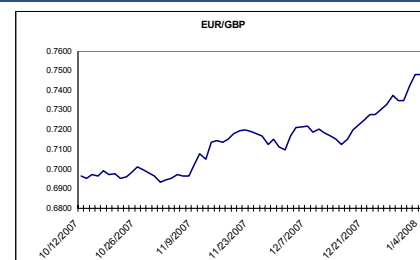


Treasury yields rose across the board last week as confidence returned to equity markets in particular to the financial sectors as capital raising by UBS and Lehmans provided a boost to sentiment. Yields on US two-year treasuries increased by 17bps to 1.84% having hit an intra-week high above 1.90% while the yield on the European equivalent rose by 4bps to 3.56%.

## Currency Comment



The Euro was broadly flat against the \$ last week however remains close to the psychological \$1.60 level. Fed minutes from its March meeting will be closely watched on Tuesday with the market looking for indications on further interest rate cuts, while pending home sales also due for release on Tuesday will also be in focus and any weakness in the numbers could put the \$ under pressure



Sterling remains under pressure against the Euro on increased speculation that the Bank of England will lower its benchmark interest rate by a further 25bps to 5.00% this Thursday. The ECB is also meeting on Thursday where it is expected to leave rates on hold at 4.00%. Further hawkish commentary from Jean Claude Trichet could see the Euro strengthen further.



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