

DOLMEN WEEKLY TRADER



Weekly Market Commentary March 8th 2010

The temporary resolution to Greek issues combined with stronger US economic releases resulted in markets pushing higher and a greater appetite for risk among institutional investors across both equity and credit markets. For the week ahead we see markets re-testing highs, but possibly failing to push through these levels due to natural profit taking and a consequence of lighter volumes at the tail end of last week. The market call is finely balanced but we expect some profit taking not just limited to equity markets, but also credit markets where we see credit spread widening slightly both in Sub-Investment and Investment Grade. Institutions that commit further monies are likely to do so to lower beta sectors such as Pharmaceutical, Mobile Telecoms and Consumer Staples. Traders should consider hedging short-term trades with shorts in the relevant indices particularly with FTSE close to testing previous highs last seen in 2008. On currencies we remain dollar positive due to the weaker relative European economic outlook. US data continues to be positive with the Non-Farm payrolls creating cause for optimism in what was a good week for the US economy. The outlook for sterling remains mixed with Euro weakness being offset by the comments from the Bank of England Governor, indicating further QE is possible. There is little in the way of economic data in Europe this week, but China will release Industrial Production, Inflation and Trade balance figures and we expect the data to underpin our positive outlook on the Chinese economy this year. While we see the risk of profit taking as high, the outlook still remains positive and any weakness should be used to buy into our preferred sectors such as Tech, Basic Resources, Industrials, Insurance and Oils. On Corporate news flow, Tullow, Antofagasta, Standard Life and Swatch Group all report during the week.

Trading Recommendations

GSK - Buy Previous close (1239p) Target (1325p) **Analyst:** Oliver Gilvarry

Post Results Up-Date: Following the company's recent positive full-year results, shares in GSK have come under pressure as two of its drugs have become the focus of some negative news-flow. The FDA have announced negative label changes for certain asthma drugs in the US which potentially impacts GSK's Advair, while the company's diabetes drug Avandia has also come in for negative coverage. We believe the share price reaction has been overly negative.

Impact for GSK: Of the two drugs, Advair accounts for 17% of group sales while Avandia only accounts for 1.6% of group sales. Regarding Advair any potential label change will only apply in the US with US sales of the drug accounting for 8% of group sales.

Next Catalyst: The FDA will provide more details on its proposed label warning on 10th March

Risks: The proposed label changes to Advair are more restrictive than originally indicated.

P/E: 10x **Dividend Yield:** 5.2%

Aviva - Buy Previous close (392p) Target (522p) **Analyst:** Oliver Gilvarry

Strong Results: Good beat on operating profit offsetting weak EV figure.

Strong Cost Control: Hit cost targets a year early, will take more out of business in 2010.

Higher turnover: Guiding higher turnover in 2010 driven by better Life and General Insurance sales.

Balance Sheet: Capital position remains strong, with dividend well supported. Potential for release of £1.1bn of impairment provision towards end of 2010.

Next Catalyst: Standard Life results on Wednesday.

Risks: Momentum in sales in Q4 not continuing in 2010.

P/E: 6.6x **Dividend Yield:** 6.2%

Paddy Power - Buy Previous close (€23.81) Target (€27.50) **Analyst:** Edward Keeling

Full Year Results: Results ahead of consensus expectations reflecting strong market share growth in both in both retail and online operations.

Valuation Premium: Trades at valuation premium when compared with its land based peers reflecting its greater exposure to the online growth channel, stronger balance sheet & growth potential.

Geographical diversification: Paddy Power's recent acquisitions and strategic partnerships mean it has diversified its exposure to include the Australian and French markets.

Balance Sheet: c.€75m of net cash. Leaves room for more opportunistic acquisitions.

Next Catalyst: Cheltenham 16th March

Risks: Increased competition and online gaming tax.

P/E: 16x **Dividend Yield:** 2.5%

Company Up-Dates

There has been a strong run in **Barclays** over the last number of weeks following results. The bank is now trading at above 2009 Tangible Net Asset of £3.37. We believe the stock is due a pull back from current levels and would look to take profits at current levels and look to buy again on any weakness.

Following **AIB's** full year results last week, both **AIB** and **BOI** have rallied. Comments from AIB indicating they could receive more than expected from the sale of the Polish operations will reduce the potential dilution. With increased risk appetite for peripheral Euro areas, the banks will be supported.

BP's strategy update on Tuesday struck the right notes from our perspective with management announcing that it expects to increase underlying earnings by \$3bn over the next 2 years. Another of our preferred picks in the energy sector, **Tullow Oil** performed well last week on the back of news that one of its core partners had rerated its exploration assets. Tullow Oil remains one of our core picks.

Key Market Moving Events

MONDAY

Corporate

Banca Generali, Bovis Homes Group, Petrofac, Tullett Prebon

Economics

Sentix Investor Confidence EC, Industrial Production GE

TUESDAY

Corporate

Audi, Aer Lingus, Antofagasta, Inmarsat, Prudential, Austrian Airlines, Finnair, Deutsche Lufthansa, Greencore

Economics

RICS House Price Balance UK, Total Trade Balance UK, ABC Consumer Confidence US

WEDNESDAY

Corporate

Fortis, JCDecaux, E.ON, Muenchener, Tullow Oil PLC, IG Group, Standard Life, Glanbia

Economics

Trade Balance GE, Imports GE, Current Account GE, Exports SA GE, Consumer Price Index GE, Industrial Production UK, Manufacturing Production UK, MBA Mortgage Applic US

THURSDAY

Corporate

Volkswagen, Deutsche Lufthansa, Origin Enterprises, Iberia Lineas Aereas de Espana, Swatch Group, Home Retail, WM Morrison Supermarkets, Old Mutual

Economics

ECB Publishes Mar. Monthly Report EC, Trade Balance US, Initial Jobless Claims Home Sales US

FRIDAY

Corporate

JD Wetherspoon PLC

Economics

Euro-Zone Ind. Prod. Advance Retail Sales US, Retail Sales Less Autos US, U. of Michigan Confidence, Business Inventories US

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