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## IRISH PAPERS TODAY

ECB moves to ease credit markets  
*(The Irish Times)*

US chief says stress tests 'reassuring'  
*(The Irish Times)*

Aer Lingus will go bust, says O'Leary  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

ECB cuts rates as UK injects £50bn  
*(Financial Times)*

Obama reveals details about budget  
*(The Wall Street Journal)*

## DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	-2.2%	1.2%
BP	1.9%	-1.8%
CRH	-7.2%	7.3%
DCC	0.6%	33.5%
E.ON	-7.8%	-14.1%
HPQ	-5.0%	-4.9%
IL&P	7.8%	58.7%
INM	-1.9%	-29.7%
J&J	1.3%	-8.3%
JPMorgan	-5.3%	11.8%
Microsoft	-2.4%	-0.6%
Vodafone	-4.9%	-12.8%

## Market View

**Analyst : David Dunk**

Equity markets across Europe are up this morning. Although the US indices finished lower yesterday, the market has reacted positively to the release of the bank stress test results, with the futures currently trading higher. Ten of the nineteen US banks under review will require additional capital, according to the Federal Reserve. The banks now have 6 months to raise a total of \$74.6bn of required capital. Bank of America alone will require \$33.9bn of additional capital. Wells Fargo plans on raising \$6bn, through the sale of common stock, Morgan Stanley will raise \$5bn, through the sale of stock and bonds. Citigroup will exchange \$5.5bn of preferred securities into common equity. Meanwhile, banks which do not require additional capital, such as JP Morgan and American Express, are looking to repay the funds received under the TARP programme. Looking forward to today's trading, the nonfarm payroll figures from the US, will be the main focus. Consensus expectations are for the loss of 600,000 jobs. While hugely negative, this figure would be the lowest level of job losses since December. Given the markets new found optimism, if job losses come in near expectations, equity markets are likely to react favorably.

### RBS : Trading statement

**Current Price** (47p)

**Analyst : Oliver Gilvarry**

Royal Bank of Scotland has this morning issued a trading statement for its first quarter. The group reported a net loss of £857m compared to a profit of £245m for the same period last year. Total income increased by 26% to £9.7bn from £7.7bn last year boosted by a strong performance from its investment banking operations, however the company warned that it does not expect this trend to continue. RBS pointed out that it has seen an increase in non-performing loans across all sectors and that it expects credit impairment losses to continue in the second half of the year. On the positive side the company has seen a 15% increase in UK savings accounts and 3% rise in current accounts. RBS is currently in the middle of its 3 to 5 year restructuring plan after posting a net loss of £24.2bn in 2008 due to credit market write-downs, impairments and a goodwill write-down on the value of its ABN acquisition. The company indicated that it has made 'good' progress on this plan, however would not comment on when it expects to return to profit. In relation to recent commentary about an economic recovery, the group said it remains cautious and is managing its business in the full expectations that 2009 and 2010 will be very tough years for the company.

### Taylor Wimpey : Open offer

**Current Price** (41p)

**Analyst : Stephen Taylor**

UK house builder Taylor Wimpey has announced that it is to raise a net £510m in an attempt to reduce its debt. The group said the proposed placing and open offer of 2,131,132,548 new ordinary shares is fully underwritten and the price of 25p represents a 48% discount to its closing price yesterday of 48.25p. The company will raise £266m (gross) by way of a share placing and £266m (gross) by way of an open offer which has been fully underwritten. The capital raising will enable the company to retain its land bank rather than have to sell assets to raise cash. The group pointed out while it remained focused on managing cash tightly, following the equity raise, the company is in a strong position to focus on a return to profitability. In relation to its outlook for the UK housing market, the company remains cautious in the short-term, however over the long-term its prospects remain attractive.

### Smurfit Kappa : Q1 results

**Current Price** (€2.74)

**Analyst : Edward Keeling**

Smurfit Kappa released first quarter results this morning that were broadly in line with expectations. EBITDA for the quarter came in at €180m, down 21% on the year amid continued pressure on European corrugated volumes and pricing. EBITDA margin remained relatively flat at 11.9%. Although Latin America performed well reporting a 21% growth year on year, overall operating profit was €82m, a 47% decline from €156m last year. The group completed €43m of its debt buyback programme during the period resulting in €8m reduction in debt levels. Total net debt for the group at the end of Q1 stood at €3.18bn, a welcomed decline from €3.37bn from the 2008 year end. This resulted in a net debt/EBITDA of 3.7x, an increase from the last reported 3.2x, but still within its covenant levels of 4.5x. Encouraging Smurfit reiterated its target to achieve its full year objective of reducing capital expenditure towards 60% of depreciation and has increased its cost take out programme from €200m to €250m by 2010. However the company did not issue full year guidance, implying that the previous guidance of just below consensus EBITDA of €800m is certainly now looking optimistic.

### Aer Lingus : Neutral Current Price (€0.64) Price Target (€0.65) Analyst : David Dunk

Aer Lingus released April traffic figures this morning. Passenger numbers increased 10.9% to 945,000. Aer Lingus's reported an increase in load factor of 4.1% compared to the same month in 2008. Short haul load factor was 77.5%, up 3.2%. Long haul capacity was 70.4%, up 4.3% on 2008. We don't anticipate any significant price moves in Aer Lingus as a result of today's announcement.

# Lloyds Hold

Current Price : £1.02

Price Target : £1.00



**DOLMEN STOCKBROKERS**

Analyst: **Oliver Gilvarry**

Friday 8th May 2009

- Lloyds Banking Group (LBG) released an Interim Management Statement (IMS) on the 7th of May. The group has delivered a good revenue performance in Q1, but it stated corporate impairment levels are starting to rise significantly. On the conference call management have guided corporate impairments will increase by greater than 50% from the £9-10bn suffered in 2008. Management continue to guide for a loss in 2009 due to impairments from the loan portfolio. During the conference call, they continued to make reference the majority of poorly performing assets have been moved into the Asset Protection Scheme (APS).
- On the 7th of March the LBG and the UK government released details of the bank's participation in the APS. LBG moved £250bn of assets into the scheme (£260bn before impairments) and paid a fee of £15.6bn for the scheme. Under the scheme LBG retains a "First Loss" of £25bn on the portfolio. After this level of losses, subsequent losses are shared 90/10 between the UK government and the bank respectively.
- At the full year results LBG management indicated they had taken on £160bn of HBOS assets that were outside Lloyds traditional risk profile. With £210bn of assets in the scheme from HBOS, an extra £50bn of assets within Lloyds risk profile was moved. The remaining loan book is split 45% Lloyds TSB and 55% HBOS, meaning the risk profile of LBG is more traditional Lloyds TSB rather than HBOS.
- As part of the APS, LBG agreed to convert the government £4bn in preference shares into ordinary equity through an open offer underwritten by the UK government. The open offer is at a price of 38.43p and if the UK government take the whole issue they would have a stake of 65.3% in the group. No timeline has currently been provided for completion of the open offer. Eligible shareholders can subscribe pro-rata to their existing holdings.
- To pay for the APS, the group is issuing "B" class shares to the UK government. The shares qualify for core tier 1 equity and pay a dividend the higher of 7% or 125% of dividends paid on ordinary shares. These shares are convertible into ordinary shares at 115p and the shares have a mandatory conversion at 115p per ordinary share when the ordinary share price is or exceeds 150p for 20 out of 30 consecutive trading days.
- Assuming the open offer is fully taken up by the UK government and the "B" class shares are converted, the UK government would have a 77% holding in the group, but only a 75% voting right.
- Following the announcement, the capital position of the group improved significantly. Risk weighted assets within the group have fallen by £194bn to £304bn. Core tier 1 moves from 6.4% to 14.5% including the new issue of "B" shares. The cost of the insurance scheme will be amortised over 7-years resulting in the capital benefit from the "B" shares declining over that period. Management have guided the largest part of the amortisation will occur in years 3-4.
- For LBG, the loan portfolio has been changed dramatically due to the APS. Sixty three percent of the loan portfolio is now prime mortgages. Unsecured loans are 4% and Corporate/SME lending are 33% of the portfolio. The corporate lending portfolio left is the best part of the original loan book.
- Due to the APS, the group can suffer impairment provisions of circa £55bn over the next three years while keeping core tier 1 above 5%. Of this £55bn, £41bn of the losses would have to come from the cleansed loan book and since the poorest quality assets have been moved into the APS this would be an extreme event.
- While the scheme will help the group weather the current economic down-turn and the impact on the credit quality within the loan portfolio, funding is still an issue. The loan to deposit ratio for the group at the end of 2008 was 1.72x, highlighting the reliance of the group on wholesale funding. The UK bank guarantee schemes will help as will the ECB repo facilities the group can access through Ireland, but only growth of the deposit portfolio and reducing the balance sheet size will enable the group to lower this figure to more secure levels.
- Valuing the group is based on Tangible Net Asset Value (TNAV) and the multiple applying to the group. The issue relating to LBG is what form of the TNAV to use? Tangible equity including the conversion of the preference shares at the end of 2008 was £33.5bn. A number of adjustments must be made to this figure to obtain a "clean" TNAV. Two of the main adjustments are outlined below.
- The "B" shares can be converted into equity at the option of the government, assuming they are all converted at the conversion price of 115p, results in an issue of 13.6bn new shares. The final deduction is part of the life book, which is classified as an intangible asset, a reduction of circa £4.5bn.
- The TNAV per share at year end using the adjustments above is 75p. This figure ignores the benefit of tax relief gained from impairment losses and the APS fee, which LBG will be able to use to off-set tax on future profits unlike RBS.
- The open offer at 38.43p allows existing shareholders to purchase shares at a price lower than the current share price of 103p. The value to shareholders of this option is currently 22p and when the share price is adjusted for it, the price is 81p, close to our estimate of TNAV.
- We believe the group will be loss making in 2009 as guided by management and this will erode the TNAV but it will remain close to 2008 TNAV. The reason for this is the pre-provision profits the group will generate in a market with much less competition. The group will have a 27% share of the UK retail market. Margins on mortgage products in the UK are now between 200 to 250bps compared to under 50bps in 2006 and 2007.
- These higher margins should increase the pre-provision profits of the group, but we believe the group's share price will be limited to 1x TNAV despite the higher margins it will generate and the market position it has.
- Therefore, while the strong position LBG has in the UK economy positions it well for the eventual recovery, the losses it will make this year and the reliance on wholesale funding will limit the upside to the stock to our current price target of 100p (pre-open offer) and 75p (post open offer) for the next 12-month period.



## International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,590	-3.4%	13.4%
FTSE	4,399	0.0%	0.4%
Dow Jones	8,410	-1.2%	-4.2%
S&P	907	-1.3%	0.5%
Nikkei	9,433	0.5%	6.5%
Stoxx 50	2,406	-1.3%	-0.3%

## Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	56.7	0.7%	8.3%
Copper	216.5	-1.0%	53.0%
Gold	910.7	-0.1%	3.6%
Silver	14.0	2.3%	23.3%
Wheat	570.3	2.1%	-10.1%
Cattle	82.0	0.2%	-4.4%

## 5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	143.4	-6.3%	-20.4%
High Yield	884.7	-3.8%	-15.5%
Financials	122.9	-11.8%	4.3%
BoI	314.6	-12.3%	33.8%
AIB	310.2	-11.9%	53.5%
RBS	158.3	-7.2%	19.5%

## Sector Performances

Sector	Index	1-Day	YTD
Construction	225	-2.1%	11.2%
Technology	169	-2.7%	11.7%
Oil & Gas	289	0.4%	10.3%
Financials	178	-0.8%	20.8%
Retail	208	-1.4%	14.6%
Food & Drink	231	2.7%	-0.7%

## Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.339	0.4%	-4.3%
€/£	0.892	1.2%	-7.1%
£/\$	1.502	-0.8%	2.7%
\$/JPY	99.12	0.8%	8.8%
€/JPY	132.70	1.2%	4.9%
€/SFR	1.513	0.3%	1.3%

## Money Market Rates

Rate	EUR	UK	US
Overnight	0.5%	0.4%	0.2%
3-Month	1.3%	1.4%	1.0%
1-Year	1.5%	1.5%	1.0%
2-Year	1.8%	2.2%	1.5%
5-Year	2.8%	3.3%	2.7%
10-Year	3.6%	4.0%	3.5%

## Date Company Region Event

Date	Company	Region	Event
08/05/2009	PUMA	DE	Q1
08/05/2009	Smurfit Kappa Group Pl	IE	Q1
08/05/2009	IMI PLC	GB	TRADE
08/05/2009	T Clarke PLC	GB	TRADE
08/05/2009	Royal Bank of Scotland	GB	TRADE
08/05/2009	Edison Intl.	US	Q1
11/05/2009	Deutsche Boerse AG	DE	Q1
11/05/2009	Benetton Group SpA	IT	Q1
11/05/2009	Lonmin PLC	GB	INTERIM
11/05/2009	RM PLC	GB	INTERIM
11/05/2009	Centrica Plc	GB	AGM
11/05/2009	King Pharma	US	Q1
12/05/2009	Aareal Bank AG	DE	Q1
12/05/2009	C&C Group Plc	IE	Q4
12/05/2009	UniCredit SpA	IT	Q1
12/05/2009	Iberia Lineas Aereas de	ES	Q1
12/05/2009	BRIT Insurance Holding	GB	TRADE
12/05/2009	Imperial Tobacco Group	GB	INTERIM
12/05/2009	Premier Foods Plc	GB	TRADE
12/05/2009	Intercontinental Hotels C	GB	Q1
12/05/2009	Tomkins PLC	GB	TRADE
12/05/2009	Wellstream Holdings PL	GB	Q1 TRADE
12/05/2009	Tullow Oil PLC	IE	AGM

## Date Event Region Estimate

Date	Event	Region	Estimate
08/05/2009	Trade Balance	GE	8.0B
08/05/2009	Imports SA (MoM)	GE	-0.90%
08/05/2009	Exports SA (MoM)	GE	-1.30%
08/05/2009	PPI Input NSA (MoM)	UK	0.80%
08/05/2009	PPI Output n.s.a. (MoM)	UK	0.20%
08/05/2009	Industrial Production MoM (s	GE	-1.30%
08/05/2009	Change in Nonfarm Payrolls	US	-620K
08/05/2009	Wholesale Inventories	US	-1.00%
12/05/2009	RICS House Price Balance	UK	--
12/05/2009	Consumer Price Index (MoM	GE	--
12/05/2009	DCLG UK House Prices (Yo'	UK	--
12/05/2009	Total Trade Balance (GBP/M	UK	--
12/05/2009	Industrial Production (MoM)	UK	--
12/05/2009	Manufacturing Production (M	UK	--
12/05/2009	Trade Balance	US	--
12/05/2009	Monthly Budget Statement	US	--
12/05/2009	ABC Consumer Confidence	US	--
13/05/2009	Jobless Claims Change	UK	--
13/05/2009	ILO Unemployment Rate (3n	UK	--
13/05/2009	Euro-Zone Ind. Prod. sa (Mo	EC	--
13/05/2009	Bank of Eng Qtrly Inflation R	UK	--
13/05/2009	MBA Mortgage Applications	US	--
13/05/2009	Import Price Index (MoM)	US	--

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