

# DOLMEN WEEKLY TRADER



30th January 2012

We believe equity markets are likely to pullback this week as the recent trend loses momentum and policy risk rises. Today's EU Summit poses the biggest risk to the rally as politicians discuss and finalise the details of the intergovernmental fiscal compact which came out of the last summit. Some of the key clauses and mechanisms within the treaty remain undecided leaving plenty of scope for bargaining between the member states. Moreover, the execution and path to ratification is unclear, with the risk of parliamentary votes and potential referenda yet to be navigated. Europe's bailout funds are likely to attract attention, particularly given the recent calls for larger "firewalls" to protect stronger member states from contagion. The implementation of Europe's permanent bailout mechanism, the ESM also presents execution risk. Its start up date has been brought forward to July however the capital required to provide it with €500bn of firepower is yet to be approved. Providing a more positive backdrop, the US economy continues to expand, last week recording growth of 2.8% in Q4. Sentiment towards the world's largest economy was also boosted by a dovish statement from the Fed which left the door open for a third round of quantitative easing and suggested that rates are likely to stay on hold into 2014. The week ahead's key economic updates will come from the US with scheduled reports on key manufacturing surveys, consumer confidence and employment.

## This Week's Market Events

### MONDAY

#### Corporate

Ryanair Q3

#### Economics

US Dallas Fed

GE Retail Sales

### TUESDAY

#### Corporate

ITW Q4  
Exxon Mobil Q4  
Pfizer Q4

#### Economics

EZ Unemployment  
US Chicago PMI  
US Consumer  
Confidence

### WEDNESDAY

#### Corporate

Imperial IMS  
Pfizer Ex

#### Economics

China PMI Manu  
US ISM  
China HSBC PMI  
US ADP

### THURSDAY

#### Corporate

Shell Q4  
AstraZeneca Q4  
Unilever Q4  
Deutsche Bank Q4  
International Paper  
Q4

#### Economics

US Initial Jobless

### FRIDAY

#### Corporate

Intel Ex

#### Economics

China Service PMI  
EZ PMI Composite  
US Nonfarm  
US ISM Non-Man.  
US Factory Orders

## Trading Recommendations

### Ryanair –Rating under review

Ryanair this morning issued a set of Q312 numbers ahead of market expectations and has upgraded FY12 (year end March) guidance. The company reported EPS of 1c versus market expectations of a loss of 1c per share, from a 13% increase in revenue to €844m. The net income beat (€30m) was a combination of greater revenue per passenger (€50.54 versus €49.10) and lower operating costs, in particular staff costs and airport handling charges, including reduced requirement for de-icing. Management has raised FY12 net income guidance by 9% to €480m from €440m, but which only represents a 7% increase on consensus going into the results. With €30m already accounted for in the Q312 beat, fourth quarter numbers will remain little changed. On use of cash, Ryanair will seek in March to extend the scope (not size) of its authorised share buyback programme to cover ADRs as well as ordinary shares. Although this hints at possible use of cash, the deputy CEO this morning refused to be drawn on whether a special dividend is being considered. Although today's beat should see share price appreciation, with the stock up 14% year to date, only a 7% upgrade to consensus, the caution that increased fuel costs will "pose a significant cost challenge for next year" and trading at a considerable premium to peers (12.2x on revised guidance versus easyJet on 9.9x), we see difficulty in this momentum continuing and would take profit.

**Smurfit Kappa - Buy**                      **Previous Close €6.32**                      **Target €7.00**

Over the past two weeks there has been an improvement in the industry dynamics within the packaging sector which bodes well for Smurfit Kappa. The pricing environment looks more positive as three peers have announced they are seeking containerboard price increases while downtime has also been flagged by Europe's fifth largest containerboard producer, which should also be price supportive. The increased concentration of market share among two producers (Smurfit Kappa and DS Smith c.40%) should also be positive for industry pricing in the long term. Smurfit Kappa could use the platform of its Q411 numbers next month to follow peers in announcing price increases along with potentially significant debt refinancing. We would look to pick up the stock on forecasted market weakness due to the improving industry and debt dynamics which should have a longer term positive impact on the company's share price.

**Cove Energy - Buy**                      **Previous Close 136p**                      **Target 200p**

Cove Energy has announced a small deal with Wentworth resources that will allow it to focus on its ongoing sale process. In an strategically important deal, Cove has agreed to sell its 16.38% and 20.475% interests in Mnazi Bay, Tanzania in exchange for 2 million shares in Wentworth and contingent payments of up to \$8.5 million depending on future natural gas thresholds. However, crucially, Wentworth will relinquish its 4.95% royalty on Cove's 8.5% Rovuma offshore Mozambique licence which makes the asset cleaner for sale. Our NAV holds no value for Mnazi Bay and therefore our 200p price target is unaffected. We view today's announcement as an incremental positive and recommend holding Cove until the formal sale process completes.

### BP - Macondo Trial Approaches

On the 27th of February, the civil litigation process relating to BP's oil spill in the Gulf of Mexico will begin. This process will decide the level of fines BP could face as a result of the spill. The trial itself will hinge on two key rulings 1) whether BP's actions were grossly negligent and 2) the amount of oil which was spilled. Due to the complexity of the trial and its connecting lawsuits, holding BP over the coming months will result in exposure to elevated levels of event risk. This leads us to advise clients that require exposure to global energy markets to consider divesting a proportion or all of their positions in BP and consider investing in **Royal Dutch Shell**. The latter will provide cleaner exposure to the oil market, combined with a steady production stream and a dividend in excess of 4%. We continue to rate BP as a Buy, however, due to the dynamics and structure of the trial process, we foresee negative headlines and instead recommend trading the stock on the resulting weakness.

## Regulatory Information

### Regulatory Information

Dolmen Securities Limited is regulated by the Central Bank of Ireland. Dolmen Securities Limited is a member firm of the London Stock Exchange. Dolmen Stockbrokers is regulated by the Central Bank of Ireland. Dolmen Stockbrokers is a member firm of the Irish Stock Exchange and the London Stock Exchange.

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes in order 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 issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. 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. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report is the property of Dolmen and 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.

### Conflicts of Interest & Share Ownership Policy

Unless specifically stated to the contrary in this report, Dolmen, its employees, directors or related companies, do not hold shares in the stocks covered in this report.

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 the companies they publish research, views and recommendations on. Accordingly analysts involved in the production of this report may have positions in any securities herein. Dolmen ensures that all staff dealing is undertaken in strict compliance with Dolmen's internal staff dealing procedures. Therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

Our conflicts of interest management policy is available at the following link;  
[http://www.dolmenstockbrokers.ie/regulation\\_mifld.shtml](http://www.dolmenstockbrokers.ie/regulation_mifld.shtml)

### 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. Ian Hunter, Brian Gallagher and John Mullane are responsible for the production of this report. Ian Hunter, Brian Gallagher and John Mullane 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.

### Other important disclosures

A description of Dolmen's basis of valuation or any other methodology used to evaluate a financial instrument or issuer or to set a price target and the meaning of any recommendation made such as buy, sell or hold is set out at:

<http://www.dolmenstockbrokers.ie/disclosures.shtml>

Prices quoted in this report, unless otherwise indicated, are as of close on the previous trading day.

A summary of existing and prior price targets for each company under coverage is available at <http://www.dolmenstockbrokers.ie/disclosures.shtml>

Dolmen Stockbrokers, 75 St. Stephen's Green, Dublin 2, Ireland.



## 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](mailto:info@dsl.ie)  
E-mail: [cork@dsl.ie](mailto:cork@dsl.ie)  
E-mail: [Limerick@dsl.ie](mailto:Limerick@dsl.ie)