



The Q2 reporting season has been and gone but the memory continues to linger as equity markets continue to bask in the better than expected outcome. In summary, over 75% of companies beat or equaled expectations, the best quarterly performance since 1994, while actual earnings beat expectations by 12% with year-on-year declines of approximately 23% against declines of 35% expected. This results outcome along with a more positive trend in the economic data releases has created a nice 'warm' feeling for investors following the chill winds in the first quarter of the year. This feeling of confidence was added to last week as further positive US housing data along with a 'less bad' Non-Farm Payroll figure on Friday added to the expectations that the worst of the downturn was now history. Our view on this issue is that economic conditions are showing signs of improvement, however the rate of improvement will continue to be slow, while companies are becoming a bit more optimistic about the future. This market rally however has been almost unprecedented in its pace, and has been driven by desire for Beta by fund managers. As a consequence, the Banking and Mining sectors have seen the biggest gains and have pushed the markets to levels where some level of consolidation is required. However as the impairment numbers continue to increase amongst the banking sector and the Chinese make noises about curbing lending to deflate a credit fuelled bubble of their own, both sectors are vulnerable to profit taking, along with the rest of the market. We don't however envisage a dramatic pull-back in markets, but rather a more modest bout of profit taking which investors should use to gain exposure to the market.

## TRADING IDEAS, EARNINGS & PREVIEWS

### Cisco

**Price:** \$22.22  
**P/E:** 17x  
**Div:** N/a  
**Target:** \$23.00  
**Buy**

Last week, 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. For long-term portfolios, we remain buyers of the stock and any pull back in markets should be used as a buying opportunity.

### Vodafone

**Price:** £1.27  
**P/E:** 9x  
**Div:** 6.10%  
**Target:** £1.50  
**Buy**

Vodafone recently issued a reassuring trading statement for its first quarter of its 2010 financial year and reiterated earnings guidance. Vodafone reported first quarter revenue that increased by 9.3% to £10.7bn in line with analyst expectations. Net debt also showed an improvement primarily due to favourable currency moves falling back to £31.2bn from £34bn. Free cash flow increased by 21.2% over the quarter to £1.9bn boosted by the company's ongoing £1bn cost cutting program that is on track for completion next year. Ex-currency movements service revenue declined by 2.1% impacted in particular by weakness in Europe where total organic revenue declined by 4.4%, however this was slightly better than expectations for a 5% decline. Service revenue in the UK fell by 4.8%, Spain by 8.1% and Germany by 4.8%. Vodafone has expanded its emerging market base over the last number of years in particular India and Africa to make up for the weakness due to economic conditions and intense competition in Europe. India showed particular strength with service revenue growing by 23% while in Africa and Central Europe revenue increased by 27.8%. Overall we take Vodafone's results as a positive with its reiteration of operating profit and free-cash flow targets. We believe the stocks valuation looks attractive at 8.5x forward earnings providing a dividend yield of 6.1%. For clients holding the stock, another way to trade the share is through writing covered calls. Using the Sept call for Vodafone with a strike of £1.30, pays a client a premium of 2.5p while still holding the stock. The option will only be called if Vodafone trades over £1.30 by September. This is a good way to increase the return on holdings such as Vodafone.

### Aviva

**Price:** £3.79  
**P/E:** 8x  
**Div:** 6.00%  
**Target:** £4.00  
**Buy**

Following on from our recommendation on Aviva last week, the group reported results stronger than expected. The dividend was cut by 31%, but the stock still yields a 6% yield based on the current share price. The capital position also improved significantly with the IGD surplus increasing to £3.2bn, at the higher end of estimates. Another announcement in the results was the disclosure Aviva will partially list its Dutch subsidiary Delta Lloyd. Such a move will improve the capital and cashflow position of the group further. The default experience was better than expected with no defaults on the commercial mortgage book. Interest cover has even improved since last year at 1.32x and the comments made by Lloyds Banking Group on the commercial property sector in the UK are also a positive for Aviva. The results have significantly reduced concerns over the capital position of the group. We continue to be positive on Aviva and see the current business model as working well.

### GSK

**Price:** £11.67  
**P/E:** 10x  
**Div:** 5.06%  
**Target:** £12.50  
**Buy**

We are upgrading our rating on GlaxoSmithKline to "buy" with a revised price target of £12.50. Given the stability of the underlying business and a yield of over 5%, we see GSK as an attractive holding. The recent Q2 results were strong, although currency movements boosted sales during the period. As expected generic competition impacted revenues during the quarter, but revenues from drugs with patent expiries are likely to decline more slowly in coming quarters. GSK is sticking to its strategy of moving away from its reliance on "White Pill/Western Market", and instead increasing its exposure to over the counter medicines, and emerging markets. GSK has also shown commitment to its stated strategy of avoiding large scale acquisitions, in favour of small and medium size acquisitions and joint ventures, as shown by the recent purchase of the PentaStaph vaccine, and the development agreement with Vernalis. The recent outbreak of swine flu has benefitted GSK, with sales of Relenza increasing from £3m in Q208, to £60m in Q209. The delivery of a swine flu vaccine over the next two years will have a more significant impact on GSK, with 291 million units ordered so far, and a likely boost to revenues of £750m-£1bn. Trading on just over 10x current year earnings, with a well covered dividend and stable cash flows as well as low levels of debt, GSK is attractive at current levels.

### Rio Tinto

**Price:** £23.56  
**P/E:** 15x  
**Div:** 2.82%  
**Target:** £28.00  
**Buy**

Given the strong performance from mining stocks in recent weeks, the likelihood of a pullback in share prices is significant. We remain fundamentally bullish on the sector, but see the possibility of initiating new longs at lower levels. While a correction in the mining sector is not certain, there is a strong possibility of pullback in commodity prices. Economic data over the last few months has been more positive leading to higher expected future demand for mining metals. Additionally the Chinese state reserve bureau has been restocking inventories, particularly copper and iron ore, which has offset the decline in demand from Western Economies. This restocking is likely close to finished, and while there are tentative signs of restocking from developed countries, this is unlikely to compensate for a fall off in Chinese demand, in the short term. Rio Tinto is in our view the stock that offers the best exposure to a resurging Chinese economy. As one of the largest iron ore producers in the world, Rio Tinto will benefit from the additional demand for steel resulting from fiscal stimulus packages. Following a successful rights issue, and a cost cutting joint venture with BHP Billiton, Rio Tinto will emerge from the current crisis stronger. Given the volatility of mining share price moves, it's our view that best strategy to take advantage of a potential pullback would be to write put options. Writing a September put option on Rio Tinto with a strike of £21.48, would yield either £0.70 per share, or an entry price of £20.78 in little over a month.

## Earnings Week Ahead

**Mon:** Morgan Sindall(Trade), Fluor Corp(Q2), Dynegy(Q2).  
**Tues:** Bang&Olufsen(Trade), DanskeBank(Q2), Lufthansa (Traffic), Adecco(Q2), Iberia (Traffic), IHG(H1), Friends Provident (Interim).  
**Wed:** Smurfit Kappa (Q2), E.ON(Q2), ING Groep(Q2), Nestle(H1), Macys(Q2), BHP Billiton.  
**Thurs:** Prudential(Interim), ThomasCook(Trade), Hypo Real Est(AGM), Kohls(Q2), Nordstrom(Q2), WalMart (Q2), Estee Lauder(Q4).  
**Fri:** Bauer(Q2), Thyssenkrupp(Q3), CTT Sys(Q2), Abercrombie&Fitch(Q2), JC Penney (Q2).

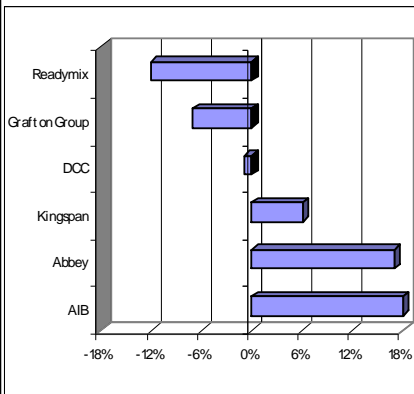
## Economic Week Ahead

**Mon:** Sentix Inv.Confid(09:30).  
**Tues:** RICS Hse Price Bal(00:01), GerCPI(07:00), UK Tade Bal (09:30), US Wholesale Inventories(15:00), ABC Consumer Confid(22:00).  
**Wed:** Irl Ind.Prod& Retail Sales(11:00), UK Jobless Claims & ILO Unemploy.(09:30), EU Ind.Prod(10:00), US MBA M'gage Apps(12:00), FOMC Rates (19:15).  
**Thurs:** Ger GDP (07:00), EU GDP(10:00), US Import Price Index&Retail Sales(13:30), US Jobless Claims(13:30), US Bus.Inventories(15:00).  
**Fri:** EU CPI(10:00), US CPI(13:30), US Ind.Prod(14:15), Uni.Mich.Confid(15:00).

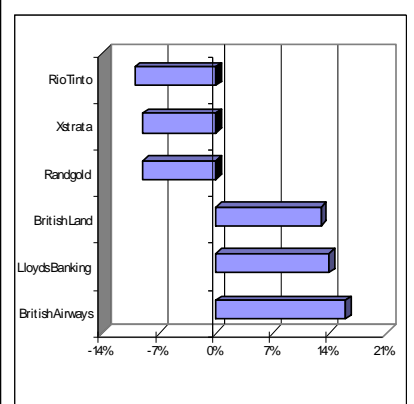
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
03/08/09– 07/08/09

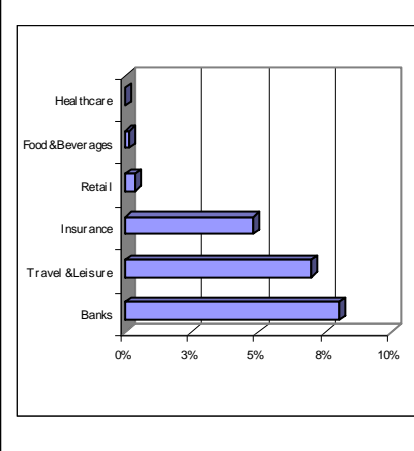
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE



Company	YTD	Relevant news
Aryzta	6.1%	Recently reiterated earnings guidance.
BP	-3.8%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	8.3%	Current trading below expectations; cost cutting ahead of forecasts
DCC	48.6%	We remain positive on the group after meeting with management
E.ON	-4.9%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	19.5%	Formed joined venture with Alcatel Lucent
IL&P	116%	Speculation surrounding restructuring of the group persist.
IN&M	-39%	Confirms extension to standstill agreement with bondholders
J&J	2.1%	Recently reported earnings in line with expectations
JPMorgan	25%	Deutsche Bank initiated coverage with buy rating.
Microsoft	23%	Announces sale of Razorfish for \$560m
Vodafone	-10%	Issues reassuring trading update

## What it says in the 'Sundays'

Company	Paper	Headline
Financials	SBP	Gov ordered BOI & AIB to extend €8 bill in emergency funding to Anglo, it emerges.
Anglo Irish Bank	S. Times	Anglo -expected to let go 25% of workforce
Lloyds	S. Times	Llyods - considering a £15-20bn rights issue
Elan	S. Tribune	Strikes back at Biogen over Tysabri

## Corporate Visits

### COMPANY

### PRESENTATION DATE

Irish Life & Permanent

3rd September



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2877	3.0%	22.3%	2.8	14.6
FTSE	4697	2.0%	6.1%	4.5	14.2
DAX	5332	2.1%	12.4%	3.9	39.7
DOW	9370	2.0%	7.0%	3.1	13.3
S&P 500	1010	2.1%	12.0%	2.7	17.4
NAS	2000	2.0%	27.0%	0.9	33.6
EUROSTOXX	229	1.0%	16.1%	4.3	18.2
NIKKEI	10524	1.2%	19%	1.8	19.1

Sector	Weekly move%	YTD move %
Basic Resources	1.6%	59.8%
Banks	7.6%	46.8%
Autos	2.2%	27.1%
Retail	0.4%	25.7%
Financial Services	0.7%	22.6%
Industrials	3.3%	21.6%
Personal & Household Goods	1.0%	19.7%
Chemicals	1.4%	18.1%
Construction & Materials	1.8%	17.0%
Technology	1.4%	16.2%
Food&Bev	0.2%	11.4%
Oil & Gas	0.8%	9.9%
Travel & Leisure	6.5%	5.5%
Insurance	4.8%	5.3%
Media	2.9%	4.5%
Telecom	1.6%	2.4%
Healthcare	0.0%	1.4%
Utilities	0.4%	-8.6%

## Commodities

	Current	Change YTD
Crude	70.45	55%
Gold	954	8.5%

## Exchange Rates

	Current	YTD Change	Year End (est)
eur usd	1.419	-1.8%	1.40
eur gbp	0.853	-10.8%	0.85
eurjpy	134.98	5.9%	120

## GDP Growth

	2008	2009 (est)
Ireland	-1.70%	-8.50%
Euro Zone	1.20%	-2.00%
UK	1.00%	-4.25%

## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	1.00%	0.88%	1.00%
UK	0.50%	0.88%	0.50%
US	0.00% - 0.25%	0.47%	0.0% - 0.25%



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