DOLMEN STOCKBROKERS

Traders Update

MARKET COMMENT

MONDAY 12TH OCTOBER 2009

The rally in equity markets continued last week as investors found renewed confidence following a bout of profit taking the previous week. The economic data releases contained no unseen surprises and not even a surprise increase in interest rates by the Reserve Bank of Australian unsettled markets. The biggest driving force of the continued move higher was the release of better than expected results from Alcoa which has set a high mark for the third quarter reporting season. The season gets well under way this week with Intel, IBM and GE the key non-financial companies reporting while Citi, JPMorgan and Bank of America also report. We do not anticipate any negative surprises in these releases and expect management to be more up-beat in their outlook statements as they benefit from the recovering global economy and rejuvenated capital markets. On the economic front equity markets will be watching the US Retail Sales data closely, however better than expected monthly sales from a number of retailers such as GAP, American Eagle and Abercrombie & Fitch last week support the view that this particular reading will not unsettle markets. The flow of cash continues in equity markets, particularly into the higher beta sectors such as basic resources, energy and industrials. With no negative surprises expected from the companies reporting this week we expect equity markets to remain well supported, with again the beta sectors leading the way.

TRADING IDEAS, EARNINGS & PREVIEWS

CRH Take Profits

We are recommending clients take profits in CRH at current levels. We continue to like CRH as a long-term recovery play and it will benefit from potential M&A in the future with c. €2bn to spend on acquisitions over the coming year. In addition the company will be a significant beneficiary from the US stimulus package. However, given that both its major markets in Europe and the US are unlikely to return to trend growth on a valuation basis of full year 2010 EV/EBITDA of 9x and P/E of 19x we believe the stock looks expensive at current levels. We would look for a retracement back towards the €18 as a buying level on the stock. CRH is due to issue an interim management statement on 10th November.

Ryanair

Price: €3.47
P/E: 13x
Div: €0.00
Target: €4.00
Buy

Recently Ryanair held its investor day at which it reiterated its guidance for full year net profits at the lower end of €200-€300m range. Due to the weaker consumer environment and the effects of its ambitious growth strategy, its forecasts that on passenger growth of 13%, its average fare will decline by 20% over the full year. We believe there is room for the airline to outperform these forecasts. Capacity is continuing to come out of the market as competitors retrench and consolidate (c.7% to date). The resilient load factor in its monthly traffic figures is also significant, while easier year on year comparables is comforting. With the most proactive cost cutting polices and superior fuel hedging position (90% hedged for FY10 at c.$60 a barrel), Ryanair may not have to reduce its average by as much as it currently estimates. Another significant announcement out of its investor day was the confirmation that it plans on switching to a more conservative growth strategy by at least FY13. It is currently engaged in negotiations with Boeing over securing a new aircraft deal and failure to achieve an acceptable price will result in the deferral or cancellations of current orders for 2011 and 2012. This would result it in a more conservative growth strategy as early as FY2011 as it would pare back its capacity growth plans to 7% per annum from 15% for both 2011 and 2012. Such a switch in capex spend would dramatically increase the cash balances of the airline and as a result It has indicated it may pay out special dividends and/or perhaps engage in further share buyback programmes. Reflecting more optimism surrounding its average fares and as a result its medium term profitability, we are upgrading Ryanair to Buy with a price target of €4.00 based on the stock trading at a 13x FY2011 earnings, a c.15% discount to its historical average.

Vodafone

Price: 134p
P/E: 9x
Target: 150p
Buy

Shares in Vodafone were under pressure last week on concerns around a pricing war in India. Reliance Communications increased competitive pressures last week announcing tariff reductions sending its shares down 22% over the week and larger peer Bharti Airtel's shares down by 21%. India remains a key growth area for Vodafone and it is also believed to be competing aggressively on price. In addition the weakness in sterling by c.8% since June could potentially negatively impact the group's debt position as 57% of Vodafone's debt is Euro denominated. While these two negative points may weigh on the company we believe the decline in Vodafone's shares over the week has opened up a more attractive entry level. We would be buyers of Vodafone again at c. 130p level. Vodafone are due to report interim results on November 10th. For clients unwilling to take currency risk in relation to Vodafone we recommend **Telefonica** (owner of O2) as our preferred operator. The group reiterated its earnings guidance on Friday and pledged to increase its dividend next year by 22% in 2010 to €1.40 providing a 7% dividend yield from its current price of €19.00.

GE

Price: $16.18
P/E: 18x
Div: 2.46%
Target: $18
Buy

General Electric had a strong week last week gaining 6% outperforming the market. With the stock flat year to date underperforming the Dow Jones by c. 12%, we believe the group's upcoming earnings report this Friday October 16th will lead to continued gains for the stock that we have seen since we added it to our US stocks recovery list. Given the improvement in economic data since the company last reported we believe that the diversified nature of its business from energy, healthcare to financial services will have benefited. Given the improvement in data we expect the company will be able to at least reiterate its free cash flow target for the year of c. $14bn to $16bn.

Prudential & Aviva

The rally in the insurance sector has continued over the last number of weeks. Aviva and Prudential are up 31.4% and 40% respectively since the beginning of August. Sentiment towards the sector has improved due to stronger capital positions and improving markets. The recent announcement by Aviva of an IPO of part of Delta Lloyd has been a positive catalyst for the share price. Aviva's dividend yield is 6.00% and in the case of Prudential the yield is 3.00%. With both stocks highly correlated to equity markets, a good way to play further increases in equity markets over the next number of weeks is through the purchase of Aviva or Prudential. Both of which have attractive yields for longer term holders.

US Banks

Third quarter reporting seasons begins for the financial sector this week in the States. **JPM** starts the reporting season on Weds with EPS expected at 49c. **Citigroup** reports on Thursday and EPS is expected to report of loss (22.5c) and **Goldman Sachs** reports the same day with an EPS of $4.18 expected. **BOA** reports at the end of the week with an EPS of (11c) expected. We see earnings improving in the quarter, but we are more positive on JPM and BOA due to their acquisitions. In the case of JPM, the integration of Bear Sterns has allowed the bank to gain market share in lucrative capital market transactions. Its recent reductions in the more risky parts of its loan book allows it to allocate capital to more profitable areas. We see the current valuation undemanding and believe the stock will perform well after Q3 results.

Deutsche Bank

Price: €54
P/E: 10x
Target: €61
Buy

Deutsche Bank is an investment bank that has an attractive valuation and unlike Barclays, there is no currency risk. It is trading at 1x BV and 1.3x TNAV, both undemanding multiples especially in a market where the bank is benefitting from strong capital market revenues. Another positive for the bank will be the tightening in bond yields over the last number of months, allowing for FV gains on assets it holds. Valuing the bank in line with its European peers at 1.5x TNAV, gives a **price target of €61** and the stock pays a dividend of 1%. Deutsche Bank will release its Q3 results on the 29th of October.

Irish Banks

Over the weekend the Greens voted in favour of the new Programme for Government, with the result the current Government remains in place. At their conference over the weekend, the party also agreed to vote in favour of NAMA in the Dáil, but the vote was very close. For the Irish banking system, it means no further roadblocks exist before NAMA and it will pass through the Dáil in the next number of weeks. The Greens did force a change to the legislation with a levy included in the bill to be imposed on Irish banks if NAMA makes a loss. Reports from the Department of Finance suggest this will be in a form that will not impact on the Risk Weighted Assets (RWA) of the banks. The creation of NAMA will derisk the balance sheets of AIB and BOI. We still prefer BOI over AIB, due to the fact BOI is transferring more of its land and development loan book into NAMA. We remain **BUYERS** of **BOI** and **IPM** following the weekends events.

Earnings Week Ahead

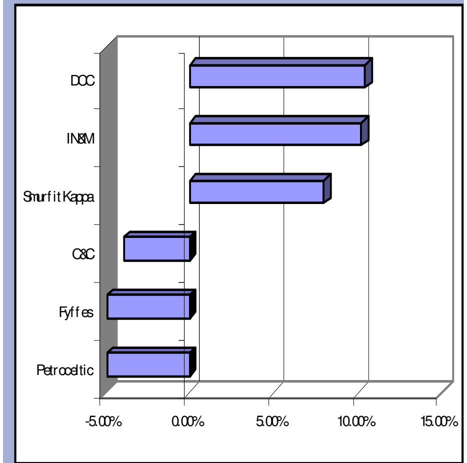
Mon: France Telecom(S'Holders),L'Oreal(S'holders), Total(S'holders), Philips(Q3).
Tues: Whitbread(Int),Bellway(Prelim),Intel Corp(Q3), J&J (Q3),KMG Chemicals(Q4).
Wed: Experian (H1), Diageo(Trade),Burberry(H1),Acergy(Q3),Rio Tinto(Q3), Xilinx(Q2),CSX Corp(Q3), Abbott(Q3),JP Morgan(Q3),WW Grainger(Q3).
Thurs: Nokia(Q3),Carrefour(Q3),Iberia(Traffic),Roche Holding(Q3), GS(Q3), WHSmith(Prelim), Petroneft Resources(S'holders),Baxter(Q3), Citigroup(Q3), Harley-Davidson(Q3), IBM (Q3), Safeway (Q3) Goldman Sachs (Q3)
Fri: Aeroports de Paris(Traffic),BofA (Q3), Gen.Electric(Q3), Genuine Parts(Q3), Halliburton(Q3).

Economic Week Ahead

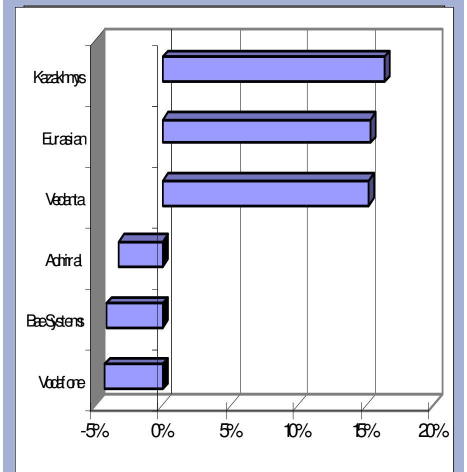
Mon: --
Tues: UK RICS Hse PriceBal(00:01),UK CPI&RPI(09:30),Ger&EU ZEW(10:00).
Wed: UK Jobless Claims&ILO Unemplyment(09:30),EU Ind.Prod.(10:00), US MBA M'gage Apps(12:00),US Adv.Retail Sales(13:30),US Fed Mins(19:00).
Thurs: ECB Mthly Report(09:00),EU CPI(10:00),US CPI,Jobless Claims (13:30), US Empire Manuf(13:30), US Phili Fed (15:00).
Fri: EU Trade Bal(10:00),US Ind.Prod& Capacity Utilisation(14:15), US Uni.Michigan Confid.(15:00).

Last Weeks Best/ Worst Performers

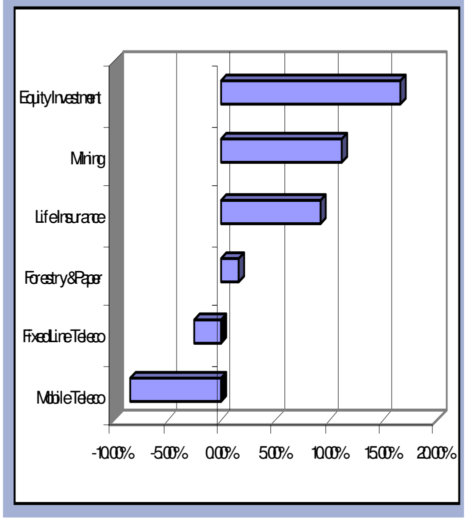
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	YTD	Relevant news
Aryzta	18.0%	UBS raises Aryzta price target by 8%
BP	4.6%	BP recently discovered a “giant” oil discovery in the Gulf of Mexico
CRH	10.3%	Continue to see as beneficiary of US fiscal stimulus
DCC	76.1%	We remain positive on the group after meeting with management
E.ON	-1.5%	E.On recently completed a giant US wind farm
Hewlett-Packard	30.6%	Q3 results slightly ahead of consensus estimates
IL&P	266.2%	Greens pass NAMA
IN&M	-51.0%	Debt restructuring announced
J&J	3.2%	J&J report this Tuesday
JPMorgan	45.4%	Q3 results released on Wednesday
Microsoft	31.4%	Intel CEO makes positive comments on Windows 7
Vodafone	-1.9%	Competition heats up in India

What it says in the ‘Sundays’

Company	Paper	Headline
Tullow	S. Times	Tullow could raise €1bn from Uganda sell off
Xstrata	S. Times	Xstrata puts Anglo bid on hold for now
Aer Lingus	S. Tribune	Aer Lingus and BMI could link up under Ryanair umbrella
Irish Economy	S. Bus Post	Green Light for Coalition
Paddy Power	S. Bus Post	Bookmaker plays down unusual results

Corporate Visits

COMPANY	PRESENTATION DATE
Irish Life & Permanent	1st September
McInerney	2nd September

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield
ISEQ	3231	-2.4%	37.9%	1.6
FTSE	4989	-1.8%	12.5%	3.9
DAX	5468	-2.0%	13.7%	3.8
DOW	9488	-1.8%	8.1%	2.9
S&P 500	1025	-1.8%	13.5%	2.4
NAS	2048	-2.1%	29.9%	0.9
EUROSTOXX	2370	-2.1%	13.7%	3.9
NIKKEI	9732	-5.2%	9.8%	1.6

Sector

Sector	Weekly move%	YTD move %
Autos	1.65	20.45
Technology	1.53	27.59
Personal & Household Goods	0.89	25.63
Chemicals	0.89	26.36
Media	0.85	12.87
Construction & Materials	0.83	33.93
Healthcare	0.79	4.65
Industrials	0.74	32.36
Telecom	0.70	6.20
Oil & Gas	0.60	14.49
Insurance	0.52	21.33
Banks	0.38	55.67
Food&Bev	0.28	16.28
Financial Services	0.28	29.67
Retail	0.24	22.31
Travel & Leisure	0.19	12.91
Utilities	-0.01	-3.25
Basic Resources	-0.19	67.17

Commodities

	Current	Change YTD
Crude	69.95	56.8%
Gold	1002.8	14.0%

Exchange Rates

	Current	YTD Change	Year End (est)
eur usd	1.458	-0.1%	1.40
eur gbp	0.914	-4.4%	0.85
eurjpy	130.89	2.7%	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%	0.75%	1.00%
UK	0.50%	0.54%	0.50%
US	0.00% - 0.25%	0.28%	0.0% - 0.25%

.

Regulatory Information
Dolmen Securities Limited is regulated by the Financial Regulator. Dolmen Securities Limited is a member firm of the London Stock Exchange. Dolmen Stockbrokers is regulated by the Financial Regulator. Dolmen Stockbrokers Limited 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.

Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments / derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

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.

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. Oliver Gilvarry, David Dunk, Stephen Taylor and Edward Keeling are responsible for the production of this report. Oliver Gilvarry is Head of Research and David Dunk, Stephen Taylor and Edward Keeling 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.

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