



Equity markets enjoyed a positive start to the week as optimism was fuelled by the talk of stimulus packages and crucially the potential for an agreement for a bail-out of the US auto makers. While the potential rescue package amounted to \$14bn, a not insignificant amount, it fell well short of the \$34bn figure sought by the CEO's of GM, Ford and Chrysler, however for the market it would give the industry time to formulate a longer-term survival plan. The subsequent rejection however by the Senate was unexpected and the over-riding fear for equity markets is that the failure of even one of these companies would have severe ripple-effects for the US and global economies. The auto sector is a significant direct and indirect employer, so in a week when US weekly jobless claims continued their relentless move higher, the threat of further job losses in most unwelcome. The saving grace for equity markets this week was that US Retail Sales, while down, were slightly better than expected, and this helped sentiment at the end of the week. The market is now fully in holiday wind-down mode and volumes are likely to decrease as fund managers close their books for year-end. The market requires a specific catalyst to move higher over the coming week and in that regard there are two possible events that might assist in this - the first is a resolution of the the auto industry issue, possibly by use of the TARP, while the second is an aggressive cut by the Fed on Tuesday when US rates are expected to be halved to 0.50%, but the market is now talking about a 0.75% cut to 0.25%. Either of these events in a market with lower than average volume could be the prelude to a Santa Claus rally.

## TRADING IDEAS, EARNINGS & PREVIEWS

### Irish Government announces recapitalisation plan

The Irish Government announced its plans to recapitalise Irish banks at 8pm on Sunday night. The Government has decided to fund the recapitalisation programme from the National Pension Reserve, private investors and existing shareholders. The total amount of the fund is €10Bn and the State's involvement will take the form of preference shares and/or ordinary share capital and the State may underwrite share issuance if appropriate. The Minister of Finance has given a timeline of early January for the discussions between the Government and the Irish banks on recapitalisation to be completed. The announcement provides little in detail and only confirms what the market has expected since the UK injected capital into their banks, that the Irish Government would also have to follow suit. Until more detailed information is provided on the recapitalisation it is very difficult to get visibility on the level of dilution and the future structure of the domestic Irish banks.

### McDonalds

Price: \$59.85  
P/E: 16.7x  
Div: 2.75%  
Target: \$70

Buy

**Fundamental View:** Last Monday, McDonalds provided further evidence that it is able to outperform during the current economic downturn by posting monthly sales for November that were well ahead of analyst expectations with an increase of 7.7% versus 5% consensus estimates. All geographies performed strongly including their largest markets in Europe and the US preformed boosted by demand for its lower value meals. McDonalds is also increasing its share of the coffee market and taking market share from Starbucks. McDonalds' has strong conviction in its own growth prospects after it raised its quarterly dividend by 33%. We would look for an entry level for McDonalds below \$60.00.

**Next Catalyst:** The next catalyst for McDonalds will be on 26/01/09 (tbc) when the group is due to report its fourth quarter results. We expect the company to again produce consensus beating results while giving strong guidance for its 2009 financial year.

### E.ON

Price: €26.44  
P/E: 8.1x  
Div: 5.8%  
Target: €40

Buy

**Fundamental View:** We continue to recommend clients focus on defensive sectors with the Utility sector being one of our favoured plays. E.ON is our preferred stock in the sector given its discounted valuation both on a P/E and EV/EBITDA basis of between 10%-15% when compared to peers. This is despite the group's strong earnings prospects for its diversified business model encompassing electricity, gas and an increasing focus on renewable energy. E.ON's balance sheet also remains strong with a debt to equity ratio of c. 50%. The group also pays an attractive current year dividend yield of c. 5.8% which is covered in excess of 2x.

**Next Catalyst:** E.ON's weighting on the DAX which currently stands at 10.65% is due to be capped at 10% on December 22<sup>nd</sup>. We expect to see some weakness in the shares as index tracking portfolio managers adjust their portfolios before that purely on a technical basis and would look to buy the stock after this date.

### Kerry

Price: €14.95  
P/E: 9.1x  
Div: 1.4%  
Target: €23

Buy

**Fundamental View:** The current issue over Irish Pork that resulted in the recall of all Irish pork has seen Kerry Group's share price fall by 11% since Friday the 5th of December. Kerry has little exposure to pig processing, but the consumer foods division will be impacted by the removal of pork products from shelves. The effect will be limited by the fact Kerry source pork from international suppliers and the diversification offered by white meats.

**Next Catalyst:** Management are guiding EPS for FY08 between €1.51 and €1.55. Our estimate is for EPS of €1.53 for FY08 and this puts the company on a current P/E of 9.7x and a PEG ratio of 1.1x. Looking out to FY09 management have guided EPS growth of below 10% and our estimate is €1.65 or an increase of 8%. Valuing the company on a P/E of 13.5x, would give a 12-month price target of €23. Kerry provides exposure to a stable cash generative business that will perform well in an economic downturn. The balance sheet of the group is strong with Net Debt/EBITDA of 2.1x and interest cover of 5.1x. The next catalyst for Kerry Group is the full year results on 24th February 2009.

### Tullow

Price: 575p  
P/E: 25x  
Div: 1.0%  
Target: 900p

Buy

**Fundamental View:** Last week saw a strong performance from the Oil & Gas sector, and Tullow in particular, which closed up 30% on the week. On Thursday, Tullow released data from the Hyedua-2 well on the Jubilee prospect in Ghana, and the Kingfisher-3 well, on the Kingfisher prospect in Uganda. Both drilling updates were positive. The Hyedua-2 intersected the Jubilee field 4km to the northwest and 5km to the north of previous wells, as expected. In Uganda, Kingfisher-3 encountered the same three hydrocarbon reservoirs as the previous two wells as expected. The lack of oil-water contacts in the reservoirs was a surprise, and has positive implications for the Kingfisher prospect as well as other nearby prospects. The latest results make Kingfisher the largest light oil discovery in East Africa. As a result of these drilling updates, we are expecting material upgrades to Tullow's proven and probable reserves.

**Next Catalyst:** Tullow is in an exciting drilling phase, with 50 wells to be drilled in 2009. The results from Buffalo (Uganda) are expected by year end, and Mahogany (Jubilee, Ghana) in early January. Tullow is expected to have its re-financing completed by Q109, failure to do so, would have a significant negative impact on the stock. In the Oil & Gas sector we prefer the integrated majors over the exploration companies, with BP as our preferred pick. Despite the moves in Tullow last week, we still see material upside, with current trading levels, 50% below our price target of £9.00. Tullow is currently sitting below key resistance at £6.00. A breakthrough of this resistance level would suggest significant further upside.

### C&C

Price: €1.27  
P/E: 5.1x  
Div: 9.4%  
Target: €2.10

Buy

**Fundamental View:** C&C shareholders will vote on the proposed compensation scheme for new management at the EGM on Thursday. It is our view that the compensation scheme gives new management the incentive to achieve a sale of the firm over the next few years. We expect new management to expand C&C's product offerings, as well as pursuing joint ventures with industry peers. Nielsen data released last week, showed improvement in Magners UK off-trade performance. Volumes increased 7.9% yoy for the four weeks leading up to November 29<sup>th</sup>. Nielsen data can be volatile, so the recent improvement in pickup in volumes may be misleading.

**Next Catalyst:** Following the EGM on the 18th, the next potential positive catalyst is likely to relate to the current strategic review, the results of which will probably be released early in the new year. Any changes implemented by new management will take time to take affect, and won't mitigate the expected poor industry data in the coming months. We believe C&C is significantly undervalued at current levels and recommend new longs on a pullback towards €1.20.

## Earnings Week Ahead

- Mon:** Iberia Airlines (Traffic), Adobe Systems (Q4).  
**Tues:** Cadbury (Trading), Best Buy (Q3), Morgan Stanley (Q4), Goldman Sachs (Q4), Carpetright (Q1), Kesa Electricals (Q1).  
**Wed:** Sports Direct International (Interim), Nike (Q2), Oracle (Q2), John Wood (Trading).  
**Thurs:** Rank Group (Trading), Acergy (EGM), Aeroports de Paris (S/holders), FedEx (Q2), Paychex (Q2).  
**Fri:** Waterford Wedgewood (S/holders).

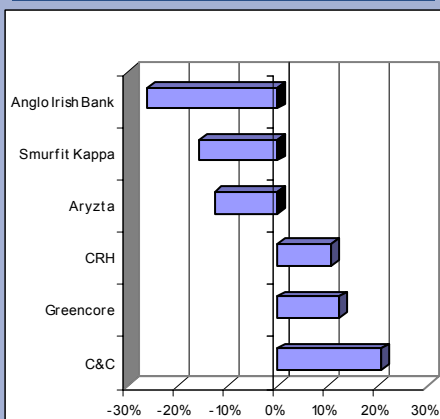
## Economic Week Ahead

- Mon:** US Empire Manuf (13:30), US Ind Prod (14:15), US NAHB Index (18:00).  
**Tues:** EU Employment (10:00), Ger PMI Services/Manuf (08:30), UK CPI (09:30), EU PMI Services/Manuf (09:00), UK RPI (09:30), US CPI (13:30), Irl PPI (11:00), US FOMC Decision (19:15), US Consumer Confid (22:00).  
**Wed:** Ger CPI (07:00), BoE Mins (09:30), UK Jobless Claims (09:30), EU CPI (11:00), UK ILO Unemployment (09:30), US MBA Applic (12:00), Irl Retail Sale (11:00).  
**Thurs:** Irl Current A/C Balance (11:00), Irl GDP (11:00), UK Retail Sales (09:30), US Initial Jobless Claims (13:30), Phil Fed (19:00), EU Trade Bal. (10:00).  
**Fri:** Ger Producer Prices (07:00), Bank of Japan Rate Decision.

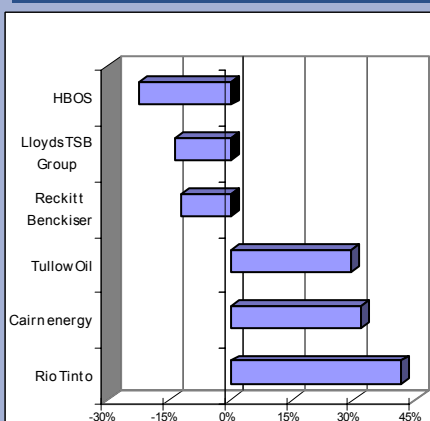
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
08/12/08-12/12/08

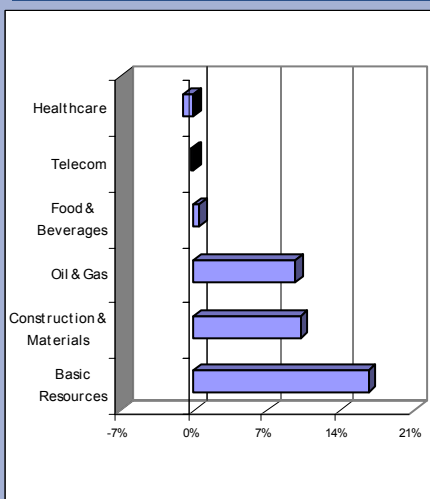
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE

Company	WTD	YTD	Relevant news
Aryzta	-12.5%	-20.3%	In its interim management statement, Aryzta say sales rose by 32% in the first quarter.
BP	8.0%	-16.1%	TNK-BP approve 09 capex programme of \$3.3bn.
CRH	10.8%	-18.7%	CRH completes the renewal and extension of €1.5bn of its banking facilities.
E.ON	12.5%	-45.5%	E.ON's chief executive says financial crisis won't impact sale of German transmission power grid sale.
Hewlett-Packard	4.7%	-30.4%	Hewlett-Packard's CFO expresses confidence in full year 2009 guidance.
IL&P	-6.7%	-87.1%	Speculation surrounding the extension of the government's bank guarantee.
IN&M	2.1%	-79.7%	IN&M announce it is re-locating its London operations to Kensington in west London.
J&J	-2.6%	-14.9%	Johnson & Johnson to acquire Israel's Omrix Biopharmaceuticals for \$27 a share or \$465m.
JPMorgan	11.2%	-32.1%	JPMorgan sells \$1.25bn in bonds that will be guaranteed by the Federal Deposit Insurance Corp.
Microsoft	-2.8%	-45.7%	Speculation over Microsoft and a \$20bn online search deal with Yahoo.
Paddy Power	1.7%	-40.2%	Irish government makes some favourable amendments to bookmaker tax.
Vodafone	1.5%	-31.6%	Vodafone plans to sell 10 year benchmark sterling bond.

## What it says in the 'Sundays'

Company	Paper	Headline
Anglo Irish Bank	Sunday Tribune	Anglo chiefs rush home to stop rot
Irish Banks	Sunday Tribune	Banks use unpaid mortgages for funding
Aer Lingus	Sunday Times	Aer Lingus one up on Ryanair
Anglo Irish Bank	Sunday Times	Anglo Irish employees share in misery
Ryanair	S. Independent	Denis O'Brien move to block Ryanair bid

## Corporate Visits

### COMPANY

### PRESENTATION DATE

Anglo Irish Bank

5th December



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	2505	1.0%	-63.9%	6.8%	5.8
FTSE 100	4280	5.7%	-33.7%	6.1%	7.8
DAX	4663	6.4%	-42.2%	5.4%	11.3
Dow Jones	8630	-0.1%	-34.9%	3.6%	10.4
S&P 500	880	0.4%	-40.1%	3.3%	19.0
Nasdaq	1541	2.1%	-41.9%	1.4%	30.7
EuroStoxx 50	2080	4.4%	-43.5%	6.1%	8.7
Nikkei 225	8236	4.0%	-46.2%	2.6%	12.6

Sector	Weekly move%	YTD move %
Basic Resources	16.67	-63.34
Construction & Materials	10.14	-47.62
Oil & Gas	9.75	-37.61
Chemicals	8.59	-41.69
Industrials	7.33	-48.69
Insurance	7.22	-46.54
Autos	6.94	-42.00
Utilities	6.38	-42.07
Technology	5.64	-49.28
Travel & Leisure	5.03	-46.10
Retail	4.83	-42.57
Financial Services	4.19	-54.98
Banks	2.45	-62.66
Media	2.32	-41.86
Personal & Household Goods	0.58	-41.88
Food&Bev	0.53	-31.45
Telecom	-0.33	-36.55
Healthcare	-1.07	-18.67

## Commodities

	Current	Change YTD
Crude Oil	\$46.28	-51.7%
Gold spot	\$822.35	-1.4%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.35	-7.53%	1.23-1.35
EUR-GBP	0.895	21.80%	0.88-0.92
EUR-JPY	122.	-25.20%	125

## GDP Growth

	2007	2008 (est)
Ireland	5.00%	0.50%
Euro Zone	2.50%	1.50%
UK	3.10%	0.50%

## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	2.50%	3.28%	2.50%
UK	2.00%	3.19%	2.00%
US	1.00%	1.92%	0.50%

## Credit Market Summary

Last week, rating agency Moodys released forecasts for corporate default rates for the next 12 months. Thus far, defaults among high-yield corporate names have been relatively few, 4.6% and 2.6% expected for full year 2008 in the US and Europe. However, this is expected to change dramatically over the next couple of years. Moodys is expecting default levels among high-yield corporates of 10.7% for the US and 12.5% for Europe over the next 12 months alone. The Tribune Company filed for bankruptcy last week. The failure of the US TV and Newspaper Company draws attention to the many private equity deals of recent years, which are burdened with enormous debt, and will likely be under pressure next year. New debt issuance continued last week, with BP, General Electric and Daimler tapping the market. BNP and Soc Gen broke with trend, issuing new paper, without government guarantees.

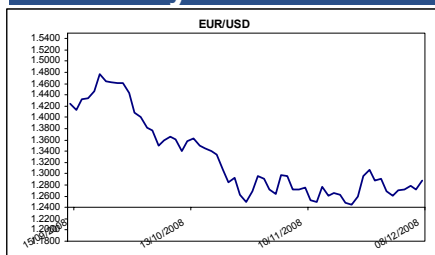
## Credit Sector Movements

**Consumer Staples-** Spreads on consumer staples companies have outperformed significantly over the last 18 months. This is due to stable cash flows and relatively strong balance sheets. Spreads on Cadbury's are currently trading at 94bps, up 2bps on the week, while spreads on Diageo are trading at 133bps, up 8bps on the week.

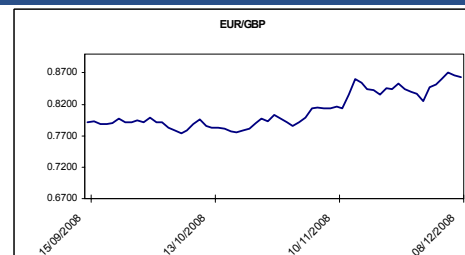
## Interest Rate Outlook

A number of comments from ECB members last week indicated that the central bank will take a 'wait and see' approach before interest rates are reduced further. PMI figures for the Euro-Zone which are due for release on Tuesday will be closely watched and any further deterioration in economic data could see expectations for further rate cuts increase. The main event however next week will be on Tuesday when the US Federal Reserve meets to decide on interest rates. The market is currently pricing in a 75% chance of a decrease in interest rates of 0.75% to 0.25%.

## Currency Comment



The euro strengthened substantially against the dollar last week rising from 1.27 to 1.34 at one stage. The main catalyst for the move were signs that the US economy is continuing to deteriorate with expectations that rates are going to continue to come down. Also putting pressure on the currency were signs that auto-makers may not receive a bailout from the government.



Sterling reached another all time low against the euro on Friday of .8997 with expectations that it will break the 0.9000 level before the end of the year. Minutes from the Bank of England's November meeting when it cut by 1% to 2% are due on Wednesday and any indication that further rate cuts are on the way could be the catalyst for that move.



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