



Equity markets struggled for direction last week despite better than expected Retail Sales data out of the US, a Weekly Jobless Claims number that was also better than forecast and the announcement that 10 banks were repaying their TARP money. Off-setting this positive data was the downbeat Fed Beige Book which seemed to contradict Treasury Secretary Geithner's assertion that there were signs of recovery in the US economy as the 12 regional Fed districts all noted that conditions remain difficult and that pressures continue to persist in the labour market. Also preventing the markets from moving higher was continued concern about bond yields which got to within one bps of the 4% level. While bond yields did fall back to 3.79% at the back-end of the week, the initial spike upwards drove the 30 Year Mortgage rate up to 5.59% from 5.29% a week earlier. This focus on mortgage rates is important for equity markets given the sensitivity of consumers currently to rising financing costs and rising energy (gasoline) prices, and with both of these currently increasing there is unease about the condition of the Green Shoots. While equity markets are likely to be range bound until the reporting season starts in July, we continue to advocate buying on dips. Once again this week, in the absence of any corporate releases, the focus will be on economic data. The key releases this week will be on the German ZEW Index which following recent weak European data releases will be watched closely; US Housing Starts which will give some more insight into the state of the housing market, and UK and US Inflation readings which will give some indication as to whether increasing expectations of inflation are appropriate.

## TRADING IDEAS, EARNINGS & PREVIEWS

### Irish Banks

The rally in the Irish financials continues with the three listed Irish banks benefiting from the recovery in equity markets. The Irish financials also benefited from the results from BOI in May and the acceptance by the market that NAMA will be a shareholder friendly deal. BOI's results a number of weeks ago were stronger than expected with the group's capital levels higher than expected and the announcement of the buy back of hybrid debt also a positive. This buyback is nearly complete and the gain to the group will be in the region of €1bn in extra capital. Based on our estimates for the haircut NAMA will impose and the level of impairments the group will face on the remainder of its loan book, we see the trough Tangible Net Asset Value (TNAV) for BOI at €1.50 per share. In the case of AIB, the announcement of its own debt exchange will increase its capital ratios by resulting in a gain of €750m and add circa 50bps to core tier 1. This will go some way towards the €1.5bn in capital the group needs to raise with the remainder raised through the disposal of M&T Bank and/or BZWBK in Poland. As with BOI we have estimated what we believe the TNAV will be for the group at the trough of the current cycle for AIB. This is based on €27.3bn of loans transferred into NAMA at a haircut of 25% in our opinion. The trough TNAV based on these assumptions is close to €1.55 based on a conversion of at least part of the Government's preference shares into ordinary equity.

With the large level of uncertainties facing the Irish banking system we believe the current valuations of AIB and BOI provide little further upside. Further details have been released on NAMA since we last review both banks in May, we believe it will be an equity friendly deal, but we would wait for a pullback in the current share prices to levels closer to their TNAV. We remain positive towards Irish Life and Permanent (ILP) due to its lack of development loans and its life business. Of the two clearers we prefer BOI over AIB due to the fact it has a management team in place and will benefit from first mover advantage in relation to NAMA.

### Home Depot

Price: \$24.15

P/E: 13.5x

Div: 3.7%

Target: \$28.00

Buy

For investors looking to gain exposure to the US housing market we recommend Home Depot as our preferred play. Home Depot is a home improvement retailer that sells building materials and home improvement products. Last week, the company raised its full year earnings guidance and reaffirmed its revenue outlook while commenting that it believed that the worst of the housing correction was over. The group sells a wide assortment of building materials, home improvement and garden products. Home Depot operates throughout the US (including Puerto Rico, the Virgin Islands and Guam), Canada, China and Mexico. Over the last number of quarters Home Depot's rate of decline throughout many of the cities in the US in which it operates has showed a significant improvement. While housing will still be a drag in the US over the medium term, we believe the home improvement market will begin to pick up towards the end of the year with Home Depot being better placed than its closest competitor Lowe's to take advantage of this. Note that we view Home Depot as one of the riskier stocks of our US top picks.

### Shorts Update

With the market trading strongly since its lows in March our stocks including BMW and Thomson Reuters that we have had short trading calls for the last 12 – 18 months have rallied strongly. Given the improvement in recent economic data our market view over the last two months has changed to buying on weakness. While we remain negative on both stocks, if markets remain strong there is unlikely to be significant downside to their share prices. That been said, when both stocks report results, Thomson Reuters 12/08/09 and BMW on 31/07/09, given their exposure to the financial sector and auto sector, respectively, we expect negative outlooks from both.

### BP

Price: 505p

P/E: 13x

Div: 6.5%

Target: 600p

Buy

Energy prices have rebounded significantly off their recent lows. The price of a barrel of oil, which was trading below \$35 per barrel as recently as February, has more than doubled and is now trading above \$70 per barrel. While the effect of a weakening dollar has boosted commodity prices, more optimistic expectations of global economic conditions have been the prime contributor. With the current level of energy prices, concerns over the viability of BP's dividend payout levels are removed. Given the slowing global economy of the last couple of years, as well as the shortage of credit, as well as the volatility of energy prices in recent years, investment in new oil production capacity has been severely curtailed. This will likely lead to higher energy prices in future years, due to supply shortfalls. BP is our preferred of the major integrated oil companies, and will, in our opinion outperform its peers over the coming year.

### BHP Billiton

Price: 1460p

P/E: 14x

Div: 3.4%

Target: 1800p

Buy

We view the mining sector as being likely to offer attractive investment opportunities in the coming months and years. Efforts to stabilise the global financial system, and avoid a severe depression, are likely to result in significant inflation in the major developed economies in the coming years. BHP is the strongest in the sector, due to its underleveraged balance sheet, the diversity of its operations and product range, and its relatively low cost profile. BHP abandoned its attempts to acquire Rio Tinto early in November 2008, on concerns of the additional debt burden. More recently, in addition to Rio Tinto's cancellation of the Chinalco deal, in favour of a \$15bn rights issue, BHP and Rio have agreed on a joint venture for their Australian iron ore operations. The deal would provide significant cost synergies for both parties, due to the similarities of the operations. However, the new JV would control of the production of 60% of global iron ore production. As a result the deal will likely face resistance from Asian and European regulators. Regardless if the deal is implemented, BHP has further upside potential from current levels. We recommend investors buy into pullbacks, with 1415p our recommended entry level.

## Earnings Week Ahead

**Mon:** Volvo (Traffic).

**Tues:** Aeroports de Paris(Traffic),Halma(Prelim),Ted Baker(Trade),Whitbread(Trade) Best Buy (Q1), Adobe Systems (Q2), Tesco, (AGM).

**Wed:** Sainsburys (Trade), Assura Grp (Prelim), WS Atkins (Prelim), FedEx(Q4) Arcelor Mittal (Investor).

**Thurs:**Arcandor (Q2), Cadbury (Trade), Go-Ahead (Trade),Ashtead Grp(Q4), France Telecom (S/holders), Koeing & Bauer (Meeting).

**Fri:** Porsche (Results), Taylor Wimpey (AGM).

## Economic Week Ahead

**Mon:** EU Employment (10:00),US Empire Manuf(13:30), US Net TIC Flows(14:00)

**Tues:** BoJ Target Rate, UK CPI&RPI (09:30), Ger/EU ZEW(10:00),US PPI (13:30), US Housing Starts & Building Permits(13:30), US Industrial Prod(14:15).

**Wed:** BoE Minutes(09:30), UK Jobless Claims(09:30),UK ILO Unemployment(09:30), EU Trade Balance&Constr.Output(10:00),US MBA M'gage Apps(12:00), US CPI & Current A/C(13:30).

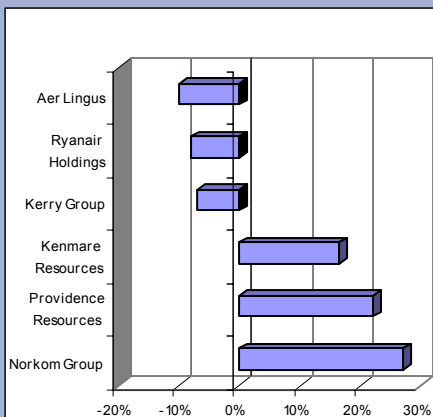
**Thurs:**Irl Retail Sales(11:00), UK Retail Sales&M4 Money(09:30), US Phil Fed(15:00) US Initial Jobless Claims(13:30), US Leading Indicators(15:00).

**Fri:** Ger Producer Prices (07:00).

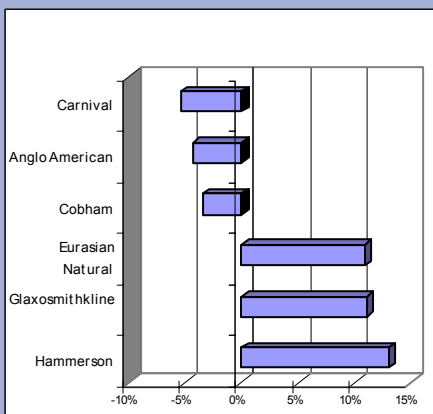
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
08/06/09-12/06/09

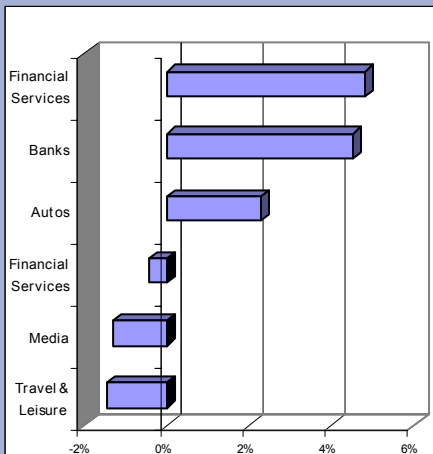
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE

Company	YTD	Relevant news
Aryzta	-1.2%	Reiterates full year earnings guidance
BP	-2.1%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	-0.8%	Trading update indicates conditions remain challenging
DCC	47.8%	Game group results point to continued resilience in computer game market
E.ON	-10.7%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	2.8%	Peer Intel posts better than expected Q1 results.
IL&P	151.6%	Speculation surrounding restructuring of the group persist.
IN&M	-31.2%	Awaiting further details on bond refinancing
J&J	-5.8%	J&J reports resilient Q1 earnings.
JPMorgan	11.9%	JPMorgan successfully issues \$3bn non-government guaranteed bond at T+350bps.
Microsoft	17.4%	Microsoft will deliver \$1.5bn annual saving by the middle of 2010 through 5000 headcount reduction.
Vodafone	-17.5%	Vodafone posts results in line with expectations

## What it says in the 'Sundays'

Company	Paper	Headline
Bank of Ireland	S.Bus Post	Bol side-stepping interest rate dilemma
Aer Lingus	S.Bus Post	Another first step for Aer Lingus
AIB	S. Tribune	AIB caught up in Latvian crisis
IN&M	S.Times	Warning over INM bonds as deadline for a deal nears
Elan	S. Independent	Elan explores options for selling €1bn drug unit

## Corporate Visits

### COMPANY

### PRESENTATION DATE

DCC 12th June



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2,970	1.3%	26.8%	2.8	14.4
FTSE	4,442	0.1%	0.2%	4.7	30.4
DAX	5,069	-0.2%	5.4%	4.3	26.5
OW	8,799	0.4%	0.3%	3.4	21.8
500	946	0.7%	4.8%	2.9	14.9
NAS	1,859	0.5%	17.9%	1.0	28.4
EUROTO	2,192	2.1%	2.1%	4.6	13.9
NIKKEI	10,136	3.8%	3.8%	1.9	

Sector	Weekly move%	YTD move %
Travel & Leisure	-1.46	4.13
Media	-1.30	-3.34
Financial Services	-0.42	18.04
Insurance	-0.32	-3.92
Construction & Materials	0.019	9.035
Oil & Gas	0.30	14.84
Industrials	0.73	10.83
Utilities	0.81	-9.30
Food&Bev	0.95	0.886
Chemicals	1.07	12.20
Retail	1.17	16.43
Personal & Household Goods	1.36	8.026
Technology	2.02	14.52
Basic Resources	2.05	52.73
Telecom	2.09	-9.36
Autos	2.31	15.98
Banks	4.54	25.55
Healthcare	4.84	-3.77

## Commodities

	Current	Change YTD
Crude	72.04	61.50%
Gold	939.30	6.80%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR USD	1.402	-3.9%	1.40
EUR GBP	0.852	-10.9%	0.93
EUR JPY	137.89	8.2%	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%	1.40%	1.00%
UK	0.50%	1.25%	0.50%
US	0.00% - 0.25%	0.62%	0.0% - 0.25%



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