DOLMEN STOCKBROKERS

Traders Update

MARKET COMMENT

TUESDAY 1ST SEPTEMBER 2009

Despite modest gains across all the major markets last week, indices are finding it difficult to break through some critical resistance levels. This is somewhat disappointing given the fact that on balance the economic data releases continue to be positive across all regions but particularly the US, where the housing market continues to display signs of recovery. Nowhere is this highlighted more than in the New Home market which at the peak of the crisis in January had an inventory over-hang of over 13 months. Based on figures released last week, this overhang has now fallen to 7.4 months supply, nearer the historic average of approximately 6 months supply. This improvement in the housing market is also reflected by the consumer with Consumer Confidence also improving significantly in recent months. The inability for equity markets to move in a more convincing manner is a reflection of the speed at which the rally since the March 9th lows, seasonally weak trading volumes and a reduction in the level of risk exposure as the focus on emerging markets, particularly China, increases. Volatility in the Chinese market has re-emerged and this is being reflected in volatility in the basic resources sector. In this holiday-shortened week in the UK and with a holiday in the US next Monday, volumes will continue to be below average and leave the market range bound. With bond yields also falling as a result of the reduction in risk, equity markets will continue to struggle to make any significant head-way this week. The key focus for markets this week will be the US Non-Farm Payroll data which is released on Friday, as well as key PMI and ISM readings which will indicate the strength of the global economy.

TRADING IDEAS, EARNINGS & PREVIEWS

Irish Banks

Last week saw the continued run in the Irish banks with Irish Life and Permanent reporting interim results. These results highlighted the group will be loss making for the full year as the Life & Pensions business will not be profitable enough to offset the losses in the banking business. Impairment guidance for the group was increased as the group increase their unemployment estimates, this also had an impact on the life company negatively affecting persistency assumptions as retail customers cancel policies. The group's reliance on wholesale funding is until evident with a loan to deposit ratio of over 3.0x compared to sub 1.6x for the other Irish banks. The lack of customer deposits can be seen with 30% of the loan booked funded from ECB funds. Despite the issues for the group the outlook is better than the other banks as it will not be part of NAMA, but its introduction could allow it to remove the banking part of the operation into another entity. Releasing a weight on the group. Following discussions with AIB last week, it has become more evident the details surrounding NAMA is the key catalyst for the Irish banking sector. AIB's view is that the haircut is only part of the equation with the coupon that will be paid on the NAMA bonds also extremely important. As this will have an effect on the pre-provision profits of the banks following NAMA. The Minister for Finance yesterday did announce the coupons on NAMA bonds will be 1.5%, which will lower the Pre-Provision Profits of AIB and BOI. He also commented he would look at a risk-sharing proposal, which will mean the loans transferred will only be paid in part up-front with the remainder of the payment dependent on the performance of the loans. Such a structure will limit the capital relief the banks will obtain from moving the loans into NAMA. Everything remains focused towards the 16th of September.

Kerry Group

Price: €18.30
P/E : 12x
Div: 1.4%
Target: €22.50
Buy

Kerry Group reported a stellar set of results with operating margins increasing more than expected due to tight cost controls and the roll-out of "go-to-Market" across the Ingredients and Flavours division. Margins increased in the Consumer Foods divisions even with the move in consumers to cheaper alternatives. The mix of Kerry's product offerings in the UK between private and branded helped its performance there. With the stabilisation in the UK economy they are now even seeing customers move back towards branded product in recent months. The Irish market is slower to show this move, but the rapid fall in demand for branded products has stabilised. On acquisitions, our recent discussions with management, they indicated they will look for acquisitions in the Ingredients & Flavours area with a focus on the beverage and diary side of the business. Any deals will be small with a few to grow them after moving Kerry management into the firm. Areas they are interest in Asia and in particular India, but they will not move ahead of consumer demand. On guidance, management believe the margin increases are sustainable. The ability of management to efficiently run the business can be seen in their reduction in working capital and the increase in Free Cash flow to €76m from €51m. We remain buyers of the stock and increased our price target to €22.50.

Microsoft

Price: $24.64
P/E : 14x
Div: 2.1%
Target: $28.00
Buy

We continue to view Microsoft as an excellent long-term investment. Better than expected results from Dell last week and raised guidance from Intel on Friday indicate that the bottom of the PC market could well be in place. With Microsoft due to release a new suite of products over the next 12-months including Windows 7 and Microsoft Office 2010 we believe the company is well positioned going into 2010. A number of companies including Intel have made very positive comments on Microsoft's new operating system and is a significant improvement on Vista. With significant costs already taken out of the business and revenue growth returning next year Microsoft will likely resume earnings growth. The group also benefits from having over $25bn of net cash on its balance sheet and generates on average $1.5bn in free cash flow every month. In general we believe that large cap US technology stocks represent excellent investment potential and will be significant beneficiaries form a global economic rebound.

GE

Price: $13.90
P/E : 14x
Div: 2.8%
Target: $18.00
Buy

We recently added General Electric (GE) to our list of US recovery stocks. Like all of the US blue chip companies that we like GE benefits from geographical and operational diversity. The group has operations throughout the world with including Technology Infrastructure, Energy, Consumer & Industrial in addition to its Capital Finance Division. Geographically the company has a major presence in the US, Europe, Pacific, the Americas in addition to the Middle East and Africa. The company is highly cash generative with about $7.1bn in free cash flow from operating activities in the first half of the year and it expects to generate between $14bn - $16bn. At GE's second quarter results in July it also indicated that its Capital Finance division has been the subject of much uncertainty and is on track to be profitable this year. The group also pointed out that it has reached its 2009 long-term funding goals for GE Capital and that it has pre-funded about one third of its 2010 target. We also expect GE to be a major beneficiary of the stimulus package. The group's CEO Jeffery Immelt pointed out that GE has targeted 400 projects related to the stimulus package said to be worth $200bn. Our price target for GE is based on the group trading at 15x 2011 EPS of $1.20. GE is due to report third quarter results on October 16th. Note that given the group's financial services exposure places GE as a higher risk investment.

Persimmon

Price: 483p
Div: 0%
Target: 560p
Buy

Last week, UK house-builder Persimmon reported first half results that were slightly ahead of expectations and also issued a relatively positive outlook for the remainder of the year. Pre-tax profit for the period declined to £9.8m from £36.9m last year. While pretax profit was lower, encouragingly, Persimmon was able to reverse some of its previous land writedowns by a net £27.9m. Persimmon is the first homebuilder to reverse the trend in land writedowns. Persimmon also indicated that net reservations continue to run ahead of last year and that recent visitor levels have also increased. Cancellation rates continued to decline throughout the first half of the year at about 16% compared to 30% last year. The company also indicated that it has 64,347 plots of land owned and under control which equates to 7 years supply. Persimmon indicated that it has the capacity to purchase further land in the south of England. The group's also benefits from a strong balance sheet and expects net debt to be under £400m by the end of the year representing gearing of 27%.

Earnings Week Ahead

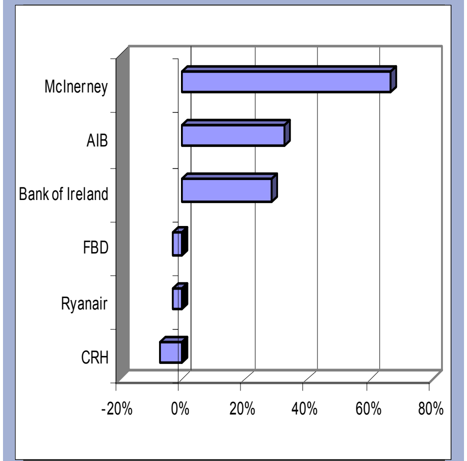
Tues: Vivendi (Q2), Donaldson (Q4).
Wed: DSG Intl (AGM), American Software(Q1),Collective Brands(Q2),Zale Corp(Q4)
Thurs: Pernod Ricard (Final), BA (Traffic), HMV Group (Trade), Hays (Prelim), Go-Ahead Group (Prelim), Premier Farnell (Q2), Del Monte Foods(Q1), Ciena Corp (Q3).
Fri: Easyjet (Traffic), RG Barry Corp (Q4).

Economic Week Ahead

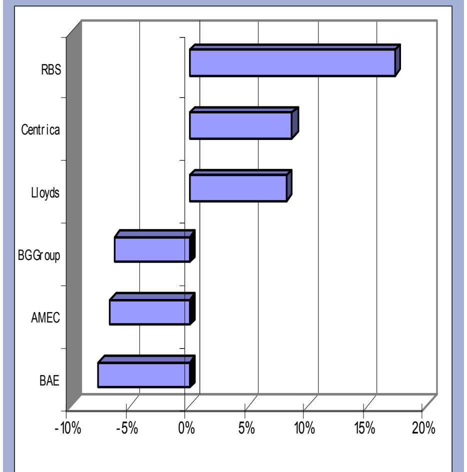
Tues: Ger Unemployment(08:55), Ger&EU PMI Manuf(09:00), UK ConsCredit(09:30) UK PMI (09:30), EU Unemployment Rate(10:00),ISM Manuf(15:00).
Wed: UK PMI Constr.(09:30),EU GDP & PPI (10:00),ADP Employ(13:15), Fed Minutes(19:00).
Thurs: Ger&EU PMI Services(09:00),UK PMI Services(09:30),EU Retail Sales(10:00), ECB Announces Rates(12:45),US Jobless Claims (13:30).
Fri: US Non-farm Payrolls (13:30).

Last Weeks Best/ Worst Performers
24/08/09– 28/08/09

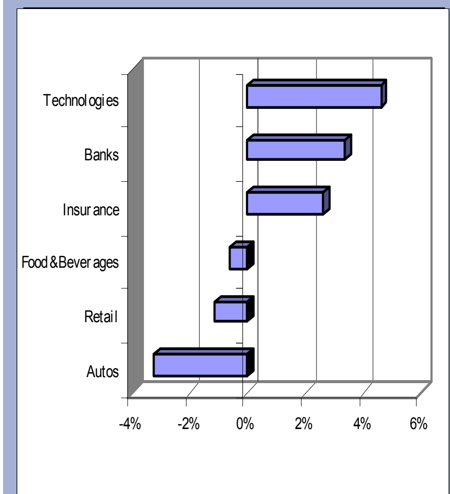
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen
WEEKLY UPDATE

Company	YTD	Relevant news
Aryzta	12.8%	Recently reiterated earnings guidance.
BP	-0.1%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	-6.3%	Interim Results in line with expectations
DCC	63.3%	We remain positive on the group after meeting with management
E.ON	4.5%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	24.2%	Q3 results slightly ahead of consensus estimates
IL&P	185.4%	Credit Suisse raise IL&P to outperform
IN&M	-34.9%	Confirms extension to standstill agreement with bondholders
J&J	0.5%	Recently reported earnings in line with expectations
JPMorgan	36.4%	Deutsche Bank initiated coverage with buy rating.
Microsoft	28.7%	Announces sale of Razorfish for $560m
Vodafone	-4.0%	Issues reassuring trading update

What it says in the 'Sundays'

Company	Paper	Headline
IN&M	S. Bus Post	State prepared to take majority stakes in banks
Kerry Group	S. Tribune	CEO lowers turnover horizons
Tullow Oil	S. Tribune	Wooed by Chinese firms
Kingspan	S. Times	Valuations looked stretched but not looking down hill anymore
C&C	S. Times	Acquisition is a positive transition for the company

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	P/E09
ISEQ	3115	4.1%	33.0%	2.0	68.7
FTSE	4909	1.2%	10.7%	4.0	70.7
DAX	5517	1.0%	14.7%	3.8	46.7
DOW	9544	0.4%	8.8%	3.0	13.7
S&P 500	1029	0.3%	13.9%	2.6	19.0
NAS	2029	0.4%	28.6%	0.9	33.5
EUROSTOXX	2412	1.0%	15.7%	4.0	20.8
NIKKEI	10534	0.1%	18.9%	1.8	

Sector

Sector	Weekly move%	YTD move %
Technology	4.59	20.46
Banks	3.37	55.54
Insurance	2.63	10.98
Media	2.26	7.81
Travel & Leisure	1.75	7.31
Industrials	1.50	26.19
Construction & Materials	1.46	26.22
Financial Services	1.06	26.36
Telecom	1.02	4.36
Utilities	0.93	-1.95
Personal & Household Goods	0.51	22.0
Healthcare	0.22	2.91
Chemicals	0.16	19.39
Basic Resources	-0.02	58.28
Oil & Gas	-0.50	13.10
Food&Bev	-0.62	11.70
Retail	-1.12	23.57
Autos	-3.25	13.26

Commodities

	Current	Change YTD
Crude	72.74	63.1%
Gold	955.00	8.6%

Exchange Rates

	Current	YTD Change	Year End (est)
eur usd	1.430	-2.0%	1.40
eur gbp	0.879	-8.1%	0.85
eurjpy	133.90	5.1%	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%	0.82%	1.00%
UK	0.50%	0.69%	0.50%
US	0.00% - 0.25%	0.35%	0.0% - 0.25%

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Tuesday 1st September 2009

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