DOLMEN STOCKBROKERS
Traders Update

MARKET COMMENT

MONDAY 20TH OCTOBER 2008

After a week which saw a further round of measures implemented by governments and central banks designed to restore confidence in the banking system ranging from part nationalisation of the UK banks, an equity injection from the US Treasury into a selection of their banks and further liquidity injections by central banks, equity markets with the exception of the ISEQ, all recorded gains. The volatility however that accompanied these gains was at times excessive and demonstrates the current fragile state of markets. As alluded to in this piece last week, the increasing focus for investors is now on the state of the global economy and the consequent impact for corporate earnings. The economic data releases last week from the US in particular were disappointing with retail sales, industrial production and the Philly Fed survey all pointing to a significant slowdown in the US economy. With the economic diary for the coming week fairly light, the spotlight turns to the corporate calander with US heavy-weights 3M, Catterpiller, Microsoft, AT&T and Dow Chemical just some of the names reporting. Following disappointing results from Alcoa last week these numbers will be closely monitored for up-dates on current trading and the outlook statements which will accompany them. With a weakening global economy risks to markets remain, however money market rates are easing and there are signs that banks are at last beginning to lend to each other. These facts, combined with the prospect of lower interest rates before the year-end may provide markets with some much needed support.

TRADING IDEAS, EARNINGS & PREVIEWS

Irish Banks

We continue to recommend Irish Life & Permanent (IL&P) as our preferred play within the Irish financial sector. Our preference for IL&P is due to the fact that 88% of its loan book is concentrated on residential mortgages in Ireland and the UK along with no exposure to residential or commercial development with a loan to value (LTV) of 45%. Capital is not an issue has IL&P as the group has circa €1bn of excess capital in its life book that can be used to support the banking portfolio. On the downside it is the most heavily reliant on whole-sale funding of the Irish banks, although 3-month interbank Euribor narrowed by 36 basis points last week which will help net interest margins. The next favoured Irish bank is AIB due to its ability to realise capital from selling assets such as Poland and M&T in the US and this could conservatively raise €1Bn in extra capital. This would offset dilution for shareholders in the scenario AIB has to raise extra capital due to bad debts. A negative point for AIB is its exposure to Residential and Commercial developers of €23.5Bn with Ireland been the majority of this exposure. On the remaining two banks, we favour BOI over Anglo due to the more diversified and less loan risky book in BOI. BOI is our third pick due to its lack of disposal options compared to AIB and it has a lower core Tier 1 than ILP and AIB.

McDonalds

Price: $53.80
P/E: 15.4x
Div: 3.10%
Target: $70
Buy

Fundamental View : McDonalds recently reported a strong set of monthly sales for August that were well ahead of expectations and like discount retailer Wal-Mart in the US, the company is continuing to benefit from its low price offering as customers trade down during the current difficult economic environment. All geographic divisions continue to perform strongly with its European segment performing the strongest. To highlight McDonald's confidence going forward, on 25 September, the company raised its dividend by 33% to $0.50.

Next Catalyst : McDonalds is due to report its third quarter results on 22 October. Given the strength of McDonalds Monthly sales we expect the group again produce consensus beating results and provide a positive outlook for the rest of the year.

Microsoft

Price: $23.91
P/E: 11.4x
Div: 1.18%
Target: $35
Buy

Fundamental View : Last week Intel reported a strong set of third quarter results that beat analyst expectations indicating that despite the current economic slowdown, demand for PCs is holding up and should be taken as a positive read across for Microsoft. On 22 September, Microsoft announced that it will buyback as much as $40bn worth of its own shares, raise its dividend and issue its first set of commercial paper. The buyback highlights the company's confidence in its growth prospects. S&P gave the company a AAA rating in relation to its new commercial paper program, the first company in a decade to receive such a rating. At 11x 2009 forecasted earnings, the group is currently trading and the bottom end its historical trading range a multiple we feel is totally unjustified given its growth prospects.

Next Catalyst : Microsoft is due to release its fiscal first quarter earnings on 23 October. Given Microsoft's diversity through its product offering and geographic footprint we believe the group is well able to withstand the current economic slowdown.

BP

Price: 460p
P/E: 4.6x
Div: 8.0%
Target: £7.00
Buy

Fundamental View: Despite the pullback in energy prices, we remain overweight the oil & gas sector. Among the major integrated oil companies, it is our view that BP offers the most attractive valuation. In the short to medium term, we expect OPEC to curb production to stabilize price levels. Over the long term, we expect oil prices to increase as demand growth exceeds supply growth. BP's relationship with its TNK-BP partners are greatly improved and progress has been made on improving the company's operational performance.

Next Catalyst : BP reports its third quarter results on the 28th of October. The market has yet to re-rate BP following on from the positive developments in TNK-BP. For trades, we recommend focusing on entry points in the 400p area, with a short term target of 450p.

Aryzta

Price: €24.90
P/E: 11.6x
Div: 1.38%
Target: €37
Buy

Fundamental View: Aryzta reported a strong set of results recently, but price action remains weak. We consider Aryzta a defensive stock, and expect it to outperform in the current economic environment. Aryzta's management has been able to preserve its operating margins in recent years despite the increases in commodity price inputs. In recent months Aryzta's commodity inputs prices have decreased significantly. We expect Aryzta's operating margin to benefit from these commodity pullbacks.

Next Catalyst : The next catalyst for the company is on the 21st of October when a US peer, Panera Bakeries, reports Q3 results. Also, Hiestand are reporting on Thursday, although few surprises are expected here. We retain our Buy recommendation on Aryzta with a target of €37.00. Another point in favour of Aryzta is that as a Swiss Registered company Irish stamp duties do not apply when purchasing the stock.

CRH

Price: €14.60
P/E: 6.1x
Div: 4.7%
Target: €22
Buy

Fundamental View: Shares in CRH have held up well over the last month despite the sell off in the broader equity markets. CRH is benefiting from the strengthening US$ (c. 50% of revenue) and falling commodity prices. While the current economic outlook is weak for the construction sector, the lowering of interest rates across the world should see the market anticipate a recovery in the second half of next year in which CRH is well positioned amongst its peers to participate in.

Next Catalyst : The next catalyst for CRH will be an interim management statement which is due to be released by the middle of November (date to be confirmed). While there is no doubt that the company faces challenges ahead and is likely to provide cautious guidance we believe that his is well priced into the stock and recommend clients buy shares in CRH around the €14 level.

Earnings Week Ahead

Mon: American Express (Q3), Texas Instruments (Q3), Washington Trust Bancorp (Q3).

Tues: ICON (Q3), Debenhams (FY), 3M Co (Q3), Biogen Idec (Q3), Pfizer (Q3), AK Steel (Q3), M&T Bank Corp (Q3), National City (Q3), US Bancorp (Q3), United Health (Q3), Western Union (Q3), Yahoo Inc. (Q3), Manpower (Q3).

Wed: Home Retail (Interim), Glaxo SmithKline (Q3), Iberdrola(Q3), Amazon(Q3), Amgen(Q3), AT&T(Q3), Conoco Philips(Q3), McDonalds(Q3), Northern Trust(Q3), Boeing(Q3), Wachovia (Q3), WellPoint (Q3), Kimberly Clark (Q3).

Thurs: Elan Corp (Q3), Legal&General (Q3), William Hill (Q3), Nestle (Q3 Sales), Hiestand (Q3), Credit Suisse (Q3), Fiat (Q3), Daimler (Q3), Renault (Q3 Sales), Microsoft(Q1), NY Times(Q3), UPS (Q3), Xerox(Q3), DowCemical(Q3).

Fri: Volvo (Q3), Peugeot (Q3 Sales), Neste Oil (Q3), Fortune Brands (Q4).

Economic Week Ahead

Mon: German PPI (07:00), US Leading Indicators (15:00).

Tues: UK CBI Manufacturing Orders (11:00), BoCan. Rate Announcement (14:00)

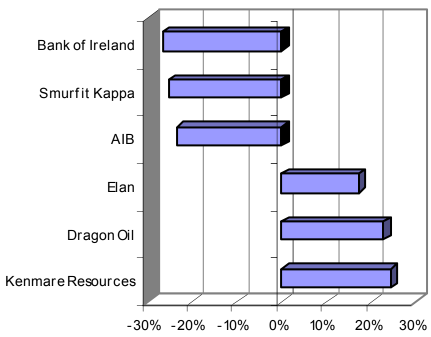
Wed: Bank of England MPC Minutes (09:30).

Thurs: French Consumer Spending (07:45), French Business Climate (07:50)m, Riksbank Interest Rate Announcement (08:30), UK Retail Sales (09:30), EU Industrial Orders (10:00), US Jobless Claims (13:30).

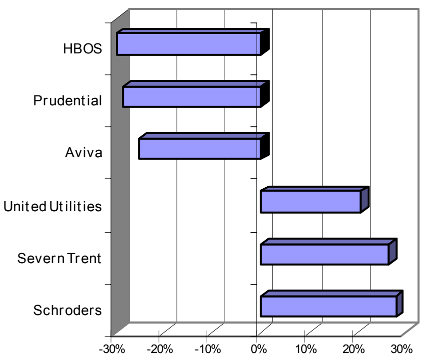
Fri: EU Flash PMI (09:00), UK GDP (09:00), Irish External Trade Balance (11:00) US Existing Home Sales (15:00).

Last Weeks Best/ Worst Performers
13/10/08-17/10/08

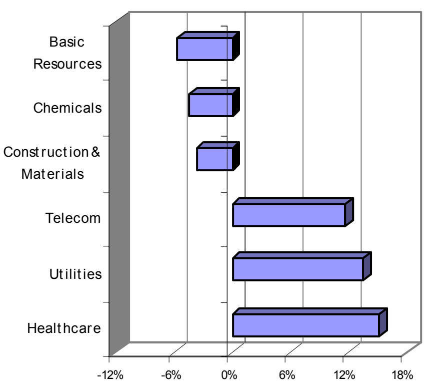
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-26.3%	-80.1%	Ahead of M&T's results, in which AIB has c.24% stake, on Tuesday 21st.
Aviva	-25.3%	-54.2%	Aviva's Dutch unit and ABN Ambro still expect to reach deal.
BP	14.8%	-29.8%	BP announce full commercial operation of wind farm in Texas.
IN&M	-22.0%	-67.1%	UK Peer Daily Mail & General Trust says full year results will be at lower end of expectations.
E.ON	13.3%	-40.9%	E.On and Masdar join forces to partner in the London Array offshore wind farm project.
CRH	-7.3%	-41.1%	CRH withdraws scrip dividend offer.
Hewlett Packard	7.7%	-21.1%	HP to strengthen presence in China with new PC manufacturing plant.
Aryzta	1.5%	-12.1%	La Brea's sales are now more than double the level which existed at the time of the IAWS purchase.
IL&P	2.2%	-69.4%	IL&P pass on the full 50 basis point ECB interest rate cut.
Microsoft	13.1%	-31.7%	Speculation resurfaces about possible Yahoo bid.
Paddy Power	-17.2%	-57.4%	Morgan Stanley raises Paddy Power from equal-weight to overweight.
Vodafone	6.1%	-38.2%	Vodafone confirms it has made a non-binding pro-

What it says in the 'Sundays'

Company	Paper	Headline
Insurers	S.Times	Insurers to hold talks on state cover
Irish Banks	S.B.Post	Banks could require capital boost of €13bn
Anglo Irish Bank	S.Tribune	Anglo Irish taps market for €3bn in fresh funds
Bank of Ireland	S.Tribune	BoI dividend doubts
GlaxoSmithKline	S.Telegraph	Glaxo to report solid earnings

Corporate Visits

COMPANY	PRESENTATION DATE

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	2720	-5.2%	-60.8%	7.4%	5.6
FTSE 100	4063	3.3%	-37.1%	6.2%	7.8
DAX	4781	5.2%	-40.7%	5.1%	9.4
Dow Jones	8852	4.7%	-33.3%	3.7%	11.0
S&P 500	941	4.6%	-35.9%	3.2%	18.5
Nasdaq	1711	3.7%	-35.5%	1.2%	27.6
EuroStoxx 50	2266	8.2%	-38.5%	5.7%	9.1
Nikkei 225	8694	5.0%	-43.9%	2.4%	10.8

Sector

Sector	Weekly move%	YTD move %
Healthcare	15.12	-13.48
Utilities	13.45	-36.86
Telecom	11.69	-36.16
Food&Bev	7.09	-27.02
Autos	7.07	-33.39
Oil & Gas	6.89	-40.53
Media	6.74	-41.03
Technology	5.61	-45.43
Personal & Household Goods	4.77	-36.13
Financial Services	3.75	-47.36
Travel & Leisure	2.97	-43.93
Retail	2.51	-41.63
Banks	-1.55	-50.82
Industrials	-2.70	-47.25
Insurance	-3.63	-47.36
Construction & Materials	-3.71	-51.38
Chemicals	-4.35	-40.29
Basic Resources	-5.62	-57.99

Commodities

	Current	Change YTD
Crude Oil	$71.85	-25.0%
Gold spot	$788.90	-5.4%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.345	-7.8%	1.45-1.50
EUR-GBP	0.778	5.8%	0.74-0.78
EUR-JPY	136.58	-16.2%	165.0

GDP Growth

	2007	2008 (est)
Ireland	5.00%	1.00%
Euro Zone	2.50%	1.50%
UK	3.10%	1.00%

Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	3.75%	4.99%	3.50%
UK	4.50%	6.12%	4.00%
US	1.50%	4.06%	1.00%

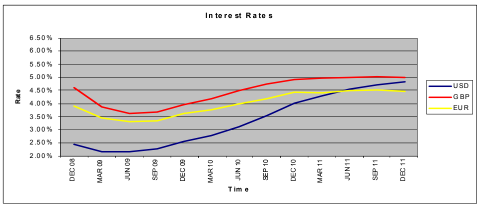
Credit Market Summary

Credit markets were again dominated by government interventions. The UK will inject capital into its banks, as will the US, through TARP. The ECB widened the collateral base that it would accept from banks looking to avail of its lending facilities. The Swiss, proved they were not above intervening, with a $60bn bail-out package for UBS. Monoline bond insurers, including Ambac, are expected to formally request that the Treasury intervene and purchase or guarantee assets off their balance sheets. Financial spreads drifted lower this week, meanwhile real economy spreads continue to widen. While the many government actions appear to be tackling the issues on Wall Street, Main Street is likely to come under increasing pressure.

Credit Sector Movements

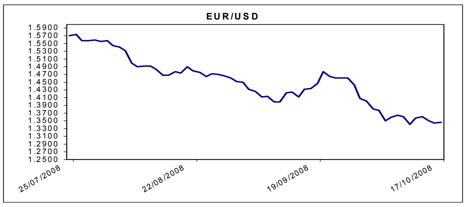
Banking sector-UK bank spreads continued to tighten dramatically, following on from Mondays capital injection. RBS was the biggest gainer, tightening 107bps to 88bps. Irish bank spreads also tightened, Anglo Irish Bank finished the week an impressive 91bps tighter, at 260bps. This is still significantly wider than its peers, AIB currently trades at 88bps, and BOI at 106. In the US, Morgan Stanley completed the $9bn equity raising from Mitsubishi, albeit after terms were renegotiated. MS spreads tightened in excess of 700bps to 492bps on the news.

Interest Rate Outlook

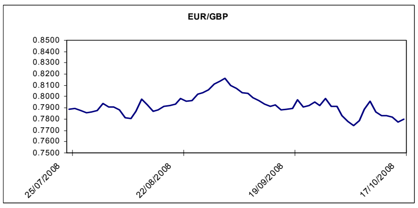


Economic data out of the US last week pointed to the fact that the US economy is clearly in recession. In light of the weak data, the market is now pricing in a 50% chance that the Federal Reserve will lower interest rates by a further 50 basis points when it meets on 29th October. GDP and PMI data out of the UK and Europe this Thursday is also expected to point recessionary readings which will place further pressure on the Bank of England and ECB to lower interest rates when both central banks meet in early November.

Currency Comment



The $ continued to remain firm against € last week despite continued weakness in economic data. The $ is likely to remain strong as concerns over European financials and their ability to raise capital remain. Euro-Zone PMI data due on Thursday is likely to signal further weakness and should weigh on the currency.



GBP saw strong gains against the € last week as the UK announced details of its capital injection into UK banks which boosted the currency as the market took comfort that the action may prevent the UK economy from heading into a deep recession. GDP data due on Thursday out of the UK is likely to show a contraction which could see the currency give back some of its recent gains.

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