DOLMEN STOCKBROKERS

Traders Update

MARKET COMMENT MONDAY 24TH AUGUST 2009

Equity markets have entered a consolidation phase following their renewed move higher from mid-July, with all major indices now trading in a 4% range. The failure of markets to breakout either higher or lower is partly reflective of the traditional summer lull with trading volumes extremely light and also due to continued focus on short-term trading. With the reporting season now out of the way the recent market moves have been driven by the economic news flow. This data has on balance been more positive of late, particularly out of Europe with recent French and German GDP data recording surprise gains, while last Fridays Euro-Zone PMI reading also showed a larger than expected gain. In the US, the data has in general also been more positive and has increased optimism about the pace of economic recovery. The one cause for concern however and the biggest impediment to a more assertive move higher by markets is the consumer related data. The recent weak retail sales data and the uncertain labour market (while the pace of job losses is slowing, they are still historically high) have raised concerns about the sustainability of a recovery without the participation of the consumer. We believe in the short-term that this will continue to weigh on markets which will remain in their recent narrow ranges, but that the positive momentum that has been in place since March will remain intact and provide the potential for further gains once this period of consolidation is complete. For traders, we continue to trade the now apparent ranges in the basic resources, oil, and banking stocks, while for longer-term portfolio clients who are long our recent calls in stocks such as Vodafone, Aviva, Microsoft, GSK, and BP we would recommend retaining these positions.

TRADING IDEAS, EARNINGS & PREVIEWS

IL&P

Price: €3.64

Under Review

Irish Life & Permanent (ILP) report interim results on Weds at 7.00am. The market will be watching to see if the Life and Pension business generates enough profits to off-set the losses in the bank. Banking margins we believe will have fallen further from year end, and guidance will now be at the lower range of management's guidance of 90-100bps. We expect margins at the half year to be 90bps, with a move towards 95bps by the end of year following on the recent increase in SVR. Lower banking margins will reduce pre-provision profits as the reduction in costs will not have kept up with the pace of margin erosion. The Life business will be impacted by lower consumer demand, but the results will show Irish Life continuing to gain market share at the expense of weaker peers. Despite this gain in market share we don't expect an operating profit in the Life business to be sufficient to absorb the impairments from the banking book. The loan book will not have fallen in size significantly since the half year, but arrears will have moved higher across the loan book. In the UK following comments from UK banks, the Buy-to-Let book in the UK could show signs of stabilisation with the rate of arrears slowing. Overall, the results will be weak from ILP on Weds as the recession in Ireland impacts on both its businesses. We are not buyers into the results and would only buy in any weakness after. The results should also provide detail on the proposed re-structuring of the group through the creation of a new holding company.

Kerry Group

Price: €17.80
P/E : 10x
Div: 1.4%
Target: €19.90

Buy

The focus on the Irish banks over the last number of months has moved focus away from the food stocks that are listed on the Irish exchange. Kerry Group are reporting Tuesday morning with an expected EPS of 66c at the half year with management to re-iterate guidance on full year EPS in a range of 160-165c. We believe for the full year, EPS will be at the higher end of guidance at 164c. We expect margins to continue to improve with Food Ingredients increasing by 40bps compared to the first half of 2008 to 8.5% and Consumer Foods to increased 20bps over the same period to 6.6%. With good cost controls and a diversified business model, we are buyers of Kerry into results on Tuesday and we maintain our BUY rating on the stock with a price target of €19.90. Other food stocks to consider are Greencore and Aryzta, which have strong balance sheets and good cashflow generation.

Rio Tinto

Price: £25.19
P/E : 15.2x
Div: 2.8%
Target: £28.00

Buy

Rio Tinto reported interim results last week, following on from its production results last month. Underlying EBITDA and earnings at $6.1bn and $2.6bn were slightly behind market expectations, but still represented a very solid performance over the period. The company remains on track for cost savings in the current year of $2.5bn, and asset divestments are progressing well with $3.7bn announced so far. Rio Tinto is in exclusive talks with a buyer for the bulk of the Rio Alcan packaging business that would raise an additional $2.025bn. Thus far this year, Rio Tinto has reduced its net debt from $39.1bn to $24.3bn. Management struck a more cautious note than in previous statements with regards to near term outlook. This is in-line with our view of a pullback in metal prices in the short term, as Chinese restocking comes to a close. We see any resulting weakness in Rio Tinto's share price as an opportunity to initiate new long positions as the long term fundamentals for the sector appear attractive.

Core Holdings

We still remain positive on our core portfolio holdings of Vodafone, Aviva and BP despite their strong gains over the last number of months. All companies have reported strong results over the last number of months and we continue to recommend clients to hold on to positions.

Vodafone

- In relation to **Vodafone** all of the large cap European telecom companies have reported strong results and showed their resilience during the economic downturn. Vodafone remains our preferred pick due to its emerging markets exposure in particular in India where it has the third largest mobile operator. The group's valuation remains attractive on 9x forward earnings providing a well covered dividend yield of 5.5%.

BP

- **BP** remains our preferred pick amongst the integrated major oil companies. The stabilization in oil prices at current levels reduces the pressure on BP very attractive dividend policy. We see the potential for BP to be a major player in the rejuvenation of the Iraqi oil industry following on from the contract to manage the rumaila field awarded in recent months

Insurance sector

- Another call we have made in recent weeks has been in the insurance sector. We have recently recommended investors to look again at the insurance sector. Our preferred plays in the sector are **Aviva** and **Prudential,** both of whom are trading below their EV of £4.14 and £5.44 respectively.

CRH

Price: €18.55
P/E : 18x
Div: 3.3%
Target: €19.00

CRH is due to report interim results tomorrow for the six month period ending June 30th. The group has already provided detailed trading statement for the period indicating that it expects EBITDA to decline by 40% to €660m. The company's outlook for the rest of the year is likely to remain cautious. However with recent data out of the US and Europe stabilising, the group may be slightly more upbeat in relation to 2010. At the conference call at its last trading update, CRH indicated that it had already seen orders from the US Recovery and Reinvestment Act and we expect more detailed information on that. In addition the market will be looking for further details in relation its cost savings program where it recently raised its target by a further €555m in annual savings between 2009 and 2010. We will also be looking for an update in relation to its acquisition strategy. As CRH is currently within 3% of our price target we would not be advising buying the stock ahead of its results.

Earnings Week Ahead

Mon: (Kingspan, INTERIM) (Petrofac, INTERIM)
Tues: (CRH,INTERIM) (Kerry Group, INTERIM) (Burger King, Q4) (Persimmon, INTERIM)
Wed: (Aminex,EGM) (FBD, INTERIM) (Glanbia, INTERIM) (Irish Life, INTERIM) (Paddypower, Interim) (Tullow Oil, Interim) (Antofagasta, Interim) (WPP,INTERIM) (Heineken, Q2)
Thurs: (Aer Lingus, Interim) (Dell, Q2) (Fortis, H1) (Natixis, Interim) (Credit Agricole, Q2) (Diageo, Final) (Kazakhmys, Interim), (Premier Oil, Interim) (Novell, Q3)
Fri: (C&C, AGM) (IN&M,INTERIM) (Tiffany & Co, Q2) (Iberia, Q2) (Partyaming, Q2) (Carrefour, Q2)

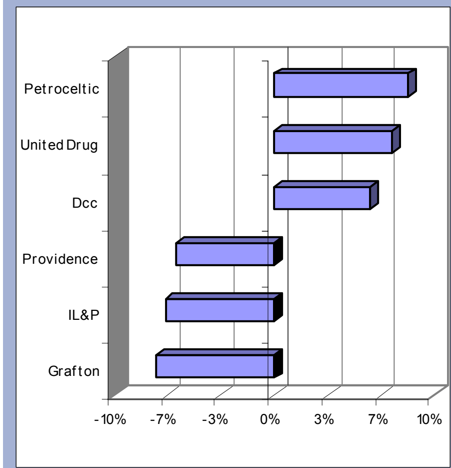
Economic Week Ahead

Mon: EC, Industrial New Orders MoM (10:00) US, Chicago Fed (10:00)
Tues: GE,GDP (07:00) GE, Capital Investment (07.00) UK, BBA Loans for House Purchase (09:30) US, Consumer Confidence (15:00) US, Richmond Fed (15:00) US, House Price Index (15:00) US,ABC Consumer Confidence (22:00)
Wed: GE, IFO Business Climate (09:00) GE, MBA Mortgage Applications (12:00) GE, Durable Goods Orders (13:30) US, New Home Sales (15.00)
Thurs: US, Durables (13:30) US, New Home Sales (15.00) GE, Consumer CPI US, GDP (13.30) US, Core PCE (13.30) US, Initial Jobless Claims (13.30)
Fri: UK,GDP (09.30) EC, Business Climate Indicator (10.00) US, PCE Deflator (13.30) US, University of Michigan Confidence (15.00)

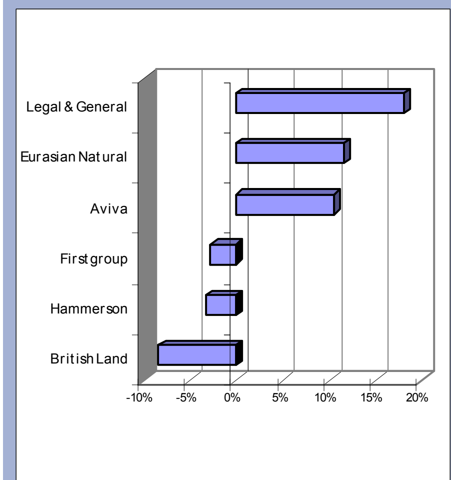
Last Weeks Best/ Worst Performers

10/08/09– 14/08/09

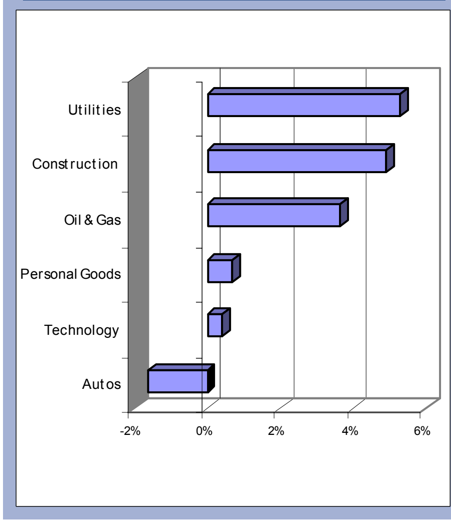
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	YTD	Relevant news
Aryzta	8.7%	Recently reiterated earnings guidance.
BP	-1.4%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	6.0%	Ahead of interim results this week
DCC	56.0%	We remain positive on the group after meeting with management
E.ON	5.2%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	22.3%	Q3 results slightly ahead of consensus estimates
IL&P	134.5%	Ahead of interim results this week
IN&M	-37.8%	Confirms extension to standstill agreement with bondholders
J&J	2.4%	Recently reported earnings in line with expectations
JPMorgan	38.4%	Deutsche Bank initiated coverage with buy rating.
Microsoft	23.5%	Announces sale of Razorfish for $560m
Vodafone	-6.3%	Issues reassuring trading update

What it says in the 'Sundays'

Company	Paper	Headline
IN&M	S. Bus Post	INM decision could lead to O'Brien clash
Irish Financials	S. Bus Post	Fine Gael is playing dangerous Nama game
UK Economy	S. Telegraph	Investors put BoE money into banks
Irish Financials	S. Tribune	Bank of Scotland Ireland private equity deal sinks
Kingspan	S. Independent	Kingspan is still too costly

Corporate Visits

COMPANY	PRESENTATION DATE
AIB	27th August
Kingspan	31st August
FBD	31st August
Irish Life & Permanent	3rd September

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2993	1.4%	28.1%	2.1	14.8
FTSE	4851	2.9%	4.38%	4.4	13.9
DAX	5462	-2.7%	14.2%	3.8	16.2
DOW	9505	1.9%	8.3%	3.1	14.9
S&P 500	1026	2.2%	13.6%	2.6	17.2
NAS	2020	1.8%	28.2%	0.9	24.5
EUROSTOXX	236	2.6%	19.1%	4.3	15.0
NIKKEI	10524	-3.3%	19.4%	1.8	45.3

Sector

Sector	Weekly move%	YTD move %
Utilities	5.31	-2.86
Travel & Leisure	2.51	5.45
Telecom	2.83	3.30
Technology	0.38	15.17
Retail	1.62	24.97
Personal & Household Goods	0.66	21.38
Oil & Gas	3.62	13.67
Media	2.38	5.42
Insurance	2.65	8.13
Industrials	2.74	24.32
Healthcare	1.99	2.68
Food&Bev	2.67	12.40
Financial Services	3.49	25.03
Construction & Materials	4.90	24.40
Chemicals	3.14	19.20
Basic Resources	2.49	58.32
Banks	2.86	50.46
Autos	-1.63	17.07

Commodities

	Current	Change YTD
Crude	73.84	59.6%
Gold	952.95	8.3%

Exchange Rates

	Current	YTD Change	Year End (est)
eur usd	1.430	-2.3%	1.40
eur gbp	0.867	-9.1%	0.85
eurjpy	135.67	5.5%	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%	0.84%	1.00%
UK	0.50%	0.71%	0.50%
US	0.00% - 0.25%	0.39%	0.0% - 0.25%

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