

The 'Obama Bounce' we suggested was possible last week failed to materialise, overtaken by further market weakness caused by the key pressure-points we identified in our year-end strategy review. In that review we identified five key areas that would dictate the performance of equity markets in the first half of 2009-earnings, US housing, de-leveraging, the banking system and credit markets. Last week saw a 'clean sweep' of all these as earnings releases and particularly outlook statements disappointed, the US housing data showed no sign of imminent recovery, the de-leveraging process continued to be reflected in weak equity markets, the banking system entered a new phase of distress and finally credit spreads widened reflecting concerns about the outlook for corporate debt. While the outlook for the global economy remains weak the biggest cause of concern for equity investors is the current state of the banking sector, as without a strong and sustainable banking system, economies cannot recover. That is why the pressure on governments is so intense to ensure that they take the right actions in rescuing the banking sector. The difficulty for equity markets however is that nobody is quite convinced that the correct actions are being taken (see the market's reaction to the UK governments latest rescue package for the UK banks). While the banks will be the key focus this week, they will share the spotlight with earnings with key releases due from several Dow components: American Express, Caterpillar and McDonalds (Mon), Verizon (Tues), AT&T, Boeing, 3M (Thurs) and ExxonMobil (Fri).

## TRADING IDEAS, EARNINGS &amp; PREVIEWS

**Vodafone**

Price: 131p  
P/E: 9.5x  
Div: 5.9%  
Target: 140p  
**Buy**

**Fundamental View:** The recent sell off in Vodafone's share price has led to a good entry point in the stock. Vodafone remains our top pick in the telecom sector given its geographic exposure with an increased focus on emerging markets particularly in India. Vodafone's balance sheet remains one of the strongest in the sector which is key focus at the moment. Vodafone will also benefit from the weakness in sterling as it translates the majority of its revenue in €. We would look to buy shares in Vodafone around the £1.20 level. We prefer Vodafone over BT Group as its dividend looks under threat and the its pension deficit will also likely weigh on its shares.

**Next Catalyst:** Vodafone is due to issue a trading statement on 03/02/2009, while Verizon will report tomorrow. All focus will be on the group's free cash flow and we believe that the company will be in a position to reiterate its recently raised fcf target for 2009 of £5.2bn-£5.7bn.

**Thomson Reuters**

Price: 1,359p  
P/E: 11.5x  
Div: 6.5%  
Target: 1,000p  
**Sell**

**Fundamental View:** We continue to believe that the outlook for future earnings for companies with significant exposure to financial companies remains uncertain. Thomson Reuters is particularly exposed to this downturn as it generates close to 60% of its revenue from its markets division. Estimates indicate that up to financial firms will lay off up to 15% of their workforce many of them on trading floors which rely heavily on Reuters terminals. At 11.5x forwards earnings the company looks expensive in the current environment when compared to peers McGraw-Hill and Reed Elsevier. Note: with all short position we recommend clients using stop-losses. It is particularly relevant in this case as Thomson Reuters is a shorted stock and there is the potential for a restructuring of the Canadian traded line and PLC shares.

**Next Catalyst:** The next catalyst for Thomson Reuters is on 24/02/09 when the group is due to report its full year 2008 results and provide an outlook for its 2009 financial year. While 2008 is likely to have proved a good year for the group we believe that the company will be forced to issue a cautious outlook for 2009

**BMW :** Shares in BMW continue to underperform the market falling by 9% last week. Fiat's disappointing results and dividend cut highlight pressures that the automakers continue to face. We believe that BMW is one of the most exposed automakers to the current downturn and expect its share to remain under pressure. BMW will report annual results on 18/03/2008

**WPP :** WPP is one of the worlds largest advertising companies with a high exposure to leading consumer brands and the automotive industry. WPP cautioned in October that it would be difficult to attain its full year margin targets of 15.5%. The group is currently trades at 8.5x 2009 earnings and we would expect the stock to be re-rated downwards due to earnings remaining under pressure. The shares are 33% higher than their October 2008 low but look vulnerable to any further signs of global slowdown ahead of its full-year results on 6th March.

**BASF :** German chemical group BASF has just released its second profit warning in two months. Following the profit warning on November 19, 2008, when the Company referred to a "massive" decline in demand, this most recent warning cited 'a decline in demand and continuing de-stocking'. The group currently trades at 9.8x forward earnings and given the pressure the company is likely to remain under we would expect this multiple to re-rate downwards. The company reports full-year results on 26th February when EPS are set to fall 8% to €3.80, while consensus forecasts for 2009 are for EPS to decline 40% to €2.26.

**Wolseley :** Our short call on Wolseley has worked well and we continue to see the stock remaining under pressure. Despite the shares falling 30% today following its weak trading update its highly leveraged balance sheet could potentially force the company into a rights issue to raise capital and reduce debt.

Independent News & Media (INM) has issued a market update this morning updating on trading conditions and also plans to de-risk the group's balance sheet. The group expects revenue for 2008 to be down c. 4% to €1.4bn with operating profit coming in at €275m and resulting in an EPS of €0.12. For 2009 the group expects total publishing advertising revenues to contract by 4%-6%, with circulation revenue forecasted to be broadly flat. INM expects operating profit of between €240m - €270m. In relation to its 39.1% stake in APN, INM said that given the continued deterioration in credit markets made it difficult for interested parties to put together a fully financed bid for APN at an appropriate value that would have been acceptable to APN and INM shareholders. As a result of no offer been made for APN which would have cleared up its current debt issues, the group has engaged parties to advise on the marketing of a private subordinated bond and use the proceeds to meet the maturity of its May 2009 €200m senior bond. To preserve cash INM has also said it will not recommend a final dividend for 2008. Last years dividend amounted to €60.2m in cash. The company has also indicated that as part of its commitment to deleverage it has identified potential asset divestitures to achieve a net debt / EBITDA ratio of below 3x. INM shares are unlikely to outperform until its refinancing issue is out of the way.

**INM****Update****Tullow**

Price: 669p  
P/E: 26x  
Div: 0.9%  
Target: 900p  
**Buy**

**Fundamental View :** Tullow issued a trading statement last week ahead of its full year financials in March. Tullow stated that they have received approvals for 60% of the \$2bn loan facility currently under negotiating, with the facility expected to be in place by February. This is a major positive for Tullow as this facility will replace a maturing \$550m facility as well as fund the first phase of the Jubilee development. Tullow also placed £400m of equity, in a move to improve the strength of the balance sheet as well as allow further high impact exploration.

**Next Catalyst :** Tullow's drilling campaign remains the key catalyst for the share price. The Tweneboa and Teak prospects together have the potential to surpass the size of the Jubilee field. Results from Tweneboa are expected at the end of February, while Teak will be drilled in the coming months. In Uganda the Ngassa prospect, which will be drilled in this half of the year, could potentially be the largest oil reservoir in the region to date.

Last Thursday evening the Minister for Transport Noel Dempsey announced that the Government has decided not to accept the Ryanair all cash offer of €1.40 per share for its 25.1% shareholding in Aer Lingus. The Minister indicated that the offer greatly undervalued the company and that a merger between the two would have an overwhelming negative impact on the consumer environment. The government was sceptical that the offer did not include any proposed remedies for the virtual monopoly which would result and that it was concerned about effects that a merger might have on airports policy and consequently on regional development policy. Judging by O'Leary's subsequent comments, it is more likely that Ryanair will walk away from the deal for the moment and return at a later stage (minimum a year). We remain positive for the prospects of both airlines, and reiterate Ryanair as our top pick. With the lowest cost base and very favourable hedging in place, Ryanair is well positioned to aggressive chase market share and ensure it emerges even stronger when markets recover.

**Ryanair & Aer Lingus****Buy**

## Earnings Week Ahead

## Economic Week Ahead

**Mon:** Philips (Q4), Wolseley (Trading), WH Smith (Trading), American Express(Q4), Amgen (Q4), McDonalds (Q4), Texas Instruments (Q4), Caterpillar (Q4),

**Tues:** Siemens(Q1), Bristol Myers Squibb(Q4), McGraw Hill(Q4), Verizon(Q4), Yahoo(Q4), Travelers Co.(Q4).

**Wed:** SAP (Q4),BSkyB(Interim), Standard Life(Q4), Starbucks(Q1), AT&T(Q4), ConocoPhillips (Q4), Pfizer(Q4), Boeing (Q4).

**Thurs:** Ericsson (FY 08),RD Shell (Q4), AstraZeneca(Q4), 3M (Q4), Broadcom (Q4),

Eastman Kodak(Q4), Eli Lilly (Q4).

**Fri:** CPL Resources (Prelim), Anglo Irish Bank( IMS), Chevron(Q4), ExxonMobil (Q4).

**Mon:** US Existing Sales(15:00), Leading Indicators(15:00).

**Tues:** Ger IFO Business Climate (09:00), Case Schiller Home Index (14:00), US Consumer Confid (15:00), US Richmond Fed (15:00).

**Wed:** GfK Consumer Confid(07:10),US Mgage Apps(12:00),FOMC Decision (19:15)

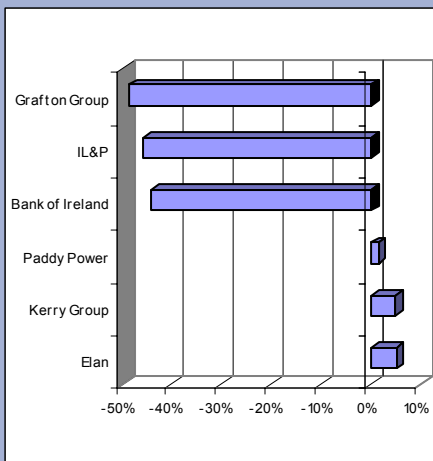
**Thurs:** Ger ILO Unemployment (07:00), EU M3 Money Supply(09:00), EU Consumer Confid(10:00), US Durable Goods Orders (13:30), US Initial Jobless Claims (13:30),US New Home Sales (15:00).

**Fri:** UK GfK Consumer Confid(00:01),UK M4 Money Supply (09:30), EU CPI (10:00), EU Unemployment (10:00), US GDP (13:30),

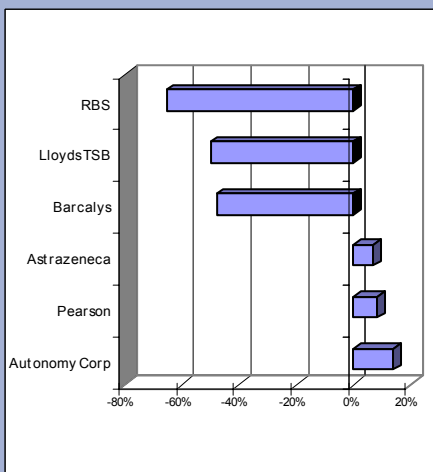
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers 19/01/09-23/01/09

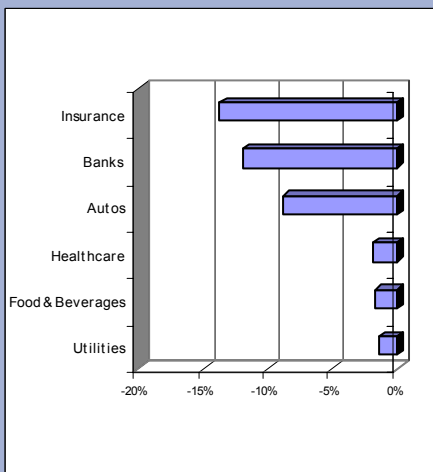
### ISEQ



### FTSE



### Sector changes WTD



## Dolmen Dozen

### WEEKLY UPDATE



Company	YTD	Relevant news
Aryzta	-13.4%	Peer Premier foods sells its speciality bakery group.
BP	-7.3%	Goldman Sachs raises its price target to 650p from 600p.
CRH	0.6%	CRH announces the acquisition of Pavestone will not proceed
E.ON	-12.2%	E.ON plans to invest £4bn in its gas grid.
Hewlett-Packard	-1.2%	Apple releases Q4 results that are better than expected.
IL&P	1.9%	CEO Denis Casey says he sees no probability of further nationalisation of Irish banks.
IN&M	-54.8%	Concerns over its ability to pay down its debt.
J&J	-7.4%	Johnson & Johnson reports fourth quarter earnings of \$2.71bn, compared with \$2.37bn a year earlier.
JPMorgan	-25.7%	Ahead of the group's full year results on 21/01/2009 Goldman Sachs adds JP Morgan to conviction buy list.
Microsoft	-11.2%	Microsoft releases second quarter results that are worse than analysts' expectations.
Paddy Power	-15.9%	UK gambling levy unlikely to effect earnings
Vodafone	-6.6%	Morgan Stanley raises its price target on Vodafone to 190p from 178p.

### What it says in the 'Sundays'

Company	Paper	Headline
Irish banks	S.Tribune	Banks facing unprecedented auditor move
Ryanair	S.Tribune	State is too broke for Ryanair deal
IN&M	S. Business Post	INM to sell off assets to raise €100m
Anglo Irish Bank	S. Business Post	Anglo shareholders face legal quagmire
AIB	Sunday Times	AIB stake building looks like a canny bet

### Corporate Visits

#### COMPANY

#### PRESENTATION DATE

Grafton Group

Date to be confirmed



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2278	-7.2%	-2.8%	7.1%	4.6
FTSE 100	4052	-2.3%	-8.6%	6.4%	7.1
DAX	4179	-4.3%	-13.1%	5.9%	9.0
Dow Jones	8078	-2.5%	-8.0%	3.9%	10.1
S&P 500	832	-2.1%	-7.9%	3.4%	15.8
Nasdaq	1477	-3.4%	-6.3%	1.4%	33.7
EuroStoxx 50	1902	-5.2%	-8.7%	6.6%	8.0
Nikkei 225	7745	-5.9%	-12.6%	2.8%	11.0

Sector	Weekly move%	YTD move %
Utilities	-1.38	-7.01
Food&Bev	-1.65	-1.48
Healthcare	-1.84	1.45
Retail	-1.85	-0.01
Media	-2.64	-6.02
Telecom	-3.37	-4.64
Personal & Household Goods	-3.53	-3.7
Industrials	-3.58	-9.29
Oil & Gas	-3.92	-3.44
Chemicals	-4.16	-6.99
Technology	-4.92	-4.70
Construction & Materials	-6.79	-11.42
Travel & Leisure	-6.88	-8.30
Basic Resources	-7.15	-5.81
Financial Services	-8.12	-11.02
Autos	-8.81	-14.96
Banks	-11.97	-22.58
Insurance	-13.72	-19.40

## Commodities

	Current	Change YTD
Crude Oil	\$46.47	4.2%
Gold spot	\$899.75	2.3%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.297	-11.1%	1.40
EUR-GBP	0.940	-1.7%	0.93
EUR-JPY	115.12	-9.6%	120

## GDP Growth

	2008	2009 (est)
Ireland	-1.70%	-3.50%
Euro Zone	1.20%	-1.00%
UK	1.00%	-1.50%

## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	2.00%	2.20%	1.50%
UK	1.50%	2.19%	1.00%
US	0.00% - 0.25%	1.17%	0.0% - 0.25%



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