DOLMEN STOCKBROKERS

Traders Update

MARKET COMMENT MONDAY 29TH SEPTEMBER 2008

It is somewhat ironic that in a week that had the most realistic potential for the delivery of a plan to help resolve the 14 month long credit crunch with the Troubled Asset Relief Programme (TARP) that equity markets fell more than the previous week during which the financial system came close to collapse. The political posturing and disunity that was evident on Capitol Hill as Congress attempted to ratify the plan was the primary cause of last weeks weakness as equity markets feared that either the plan would not be approved or if it was, that it would be severely diluted. Also a lack of clarity on how the plan would work, at what price the Treasury would buy the 'toxic' assets from banks and how much it would cost the US taxpayer merely added to the uncertainty. Lurking behind the headline grabbing TARP however were other issues that also caused the market to fret- the biggest bank failure in US history (Washington Mutual), a very weak durable good's number, higher jobless claims, a revision lower to US Q2 GDP, a GE profit warning but more worryingly continued US housing weakness. While the TARP is critical for the chance of a market recovery, investors should not lose sight of the fact that economies have been badly damaged by the issues it aims to resolve and that any recovery will take time. The focus in the coming week apart from TARP, will be ECB comments on Thursday and the US Non-Farm Payrolls on Friday as well as ISM/PMI readings from the US, UK and Euro-zone. With market uncertainty at such a peak, we continue to advocate a focus on defensive sectors.

TRADING IDEAS, EARNINGS & PREVIEWS

TARP

Later on Sunday night Capitol Hill agreed the bailout plan for the US financial sector. The deal gives Paulson $250Bn straight away with an extra $100Bn to be disbursed with the agreement of the President. The remaining $350Bn can only be released with the approval of Congress. The bill is now “Frozen” and no changes will be made to it as it passes through Congress. The mechanics of TARP have been left to the Treasury Secretary and he retains the right to decide the price period and how the assets are purchased. The bill includes warrants for the US government that allow the US taxpayer equity stakes in institutions that use the scheme. Executive pay is also included in the plan with Golden Parachutes been banned and clawbacks on executive pay. As required by the Democrats the bill includes provisions for the Treasury to use loan guarantees and credit enhancements to avoid foreclosures on mortgages. Overall the deal is similar to what was original raised by Bernanke and Paulson, but with more oversight. The bill will go before the House of Representatives today and should be approve after Europe is closed. The bill will then go to the Senate and should be passed there by the end of the week. Once the bill is passed, Paulson has 45-days to put the procedures in place to start buying assets, with a realistic date of November for the first purchases to begin.

Aryzta

Price: €28.80
P/E: 13.0x
Div: N/a
Target: €37.00

Buy

Fundamental View : Aryzta reported results last Monday that were stronger than expected with EPS beating expectations at €2.022 and revenues stronger than expected at €3.134Bn. The group is a strong cash generator with Free Cash Flows increasing by 34.4% to 183.5m and net debt to EBITDA fell to 2.15x excluding Origin Enterprises. Revenue growth remains strong with Heistand AG increasing revenues by 14.5% for their first 6-months and IAWS increased underlying revenue by 14% on a constant currency basis. In addition to the growth in revenues operating margins increased by 10bps for Food Europe and by 40bps in Food North America.
Next Catalyst : The next catalyst for the company is on the 21st of October when a US peer, Panera Bakeries, reports Q3 results. We retain our Buy recommendation on Aryzta with a target of €37.00 and would buy on any weakness below €34. Another point in favour of Aryzta is that as a Swiss Registered company Irish stamp duties do not apply when purchasing the stock.

Thomson Reuters

Price: £12.61
P/E: 14x
Target: £11.52

SELL

Fundamental View : We continue to hold a negative stance towards corporates that generate the majority of their revenue from financial services with Thomson-Reuters being a typical case in point. The company generates over half of its revenue from financial services firms and given the current downturn in financial sector we believe the company is at risk to downgrades in earnings estimates over the next year. At Thomson Reuters’ most recent second quarter results in August its Markets division (exposure to financials) saw growth decline quarter on quarter to 7% from 9% in the first quarter. We expect this slowdown to pick up over the next few quarter given that we expect financial services firms to cut back on spending over the next year. The company currently trades at 14x forward earnings, a considerable premium to the 11x that the media sector trades on, while on an EV/EBITDA the stock also looks expensive at c. 9x.
Next Catalyst : Thomson Reuters is due to report third quarter results on 12/11/08. While the company did reiterate guidance at its most recent results, we believe that given the difficult environment that the company operates in there is a significant possibility that it may lower earnings guidance. The group will also be holding its investor day on October 2nd.
Chart View: Thomson Reuter’s medium term double top price formation suggests further downside risks remain. The recent breakaway gap from its previous trading range which occurred early September confirms the current downward momentum. Price is likely to test key resistance at 11.52 in the short term. Go short on intraday bounces.

BP

Price: £4.76
P/E: 5.9x
Div: 6.1%
Target : £7.00

BUY

Fundamental View: On the 5th September BP signed a Memorandum of Understanding (MoU) with its TNK-BP co-investor AAR. The MoU outlined a revised management structure for TNK-BP, including independent directors and a new CEO. While the MoU was a preliminary agreement ,and significant differences remained, it substantially decreased the risk of our investment case. Last week we saw further progress with a meeting of TNK-BP’s management. Capital spending for 2008 has been approved at $4.4bn, and the first half dividend payment will be 40% of net income.
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. BP will also be affected by movements in energy prices and any shift in sentiment towards the oil & gas sector. For short term trades, entry points around the 470-480p area should be targeted.
Chart View : BP’s share price remains dominated by its medium term downtrend. A confirmed break of this trendline would imply a rally in price, likely to target key resistance at 537p.

E.On

Price: €35.28
P/E: 11.7x
Div: 4.4%
Target : €50

BUY

Fundamental View : E.On, our preferred stock in the utility sector is currently trading at very attractive levels. We have a favourable outlook on the utility sector in the short and medium term and expect significant outperfomance by the sector compared to the broader market. Utilities are considered defensive due to their stable earnings streams and non-cyclical business models. As a result of the large cost of entry into the market, there is limited scope for increased competition in the sector. German based E.On distributes gas, electricity and drinking water, as well as generating electricity across central Europe, the UK and the Nordic region.
Next Catalyst : E.On’s next results are due on the 12th of November. In addition we see renewed interest from the market in the utility sector due to weakness in the market sectors that have greater cyclicality.
Chart view : Price has diverged strongly form its medium term downtrend, indicating a pullback to trendline resistance at €40.31 is likely. Current price action is approaching a key short term pivot level at €36.57. A break of this level would imply further upside potential targeting €40.31. Confirmation comes by way of a reversal in daily MACD momentum.

Earnings Week Ahead

Mon: (TUI Travel TS), Close Brothers (Prelim), Compass (IMS), Iona Tech (AGM)

Tue: Diary Crest (Interim), Tesco (Interim), Thomas Cook (TS), Pepsi (Q3), SSE (TS), Geswiss (Q3)

Thur: UBS (EGM), M&S (TS), Halford (Interim), Ted Baker (Interim), Marriott (Q3) Thomson Reuters (Investor Day)

Fri: United Drug (TS), BA (Traffic), Thomson Reuters (Investor Day)

Economic Week Ahead

Mon: UK Consumer Credit (09.30), UK Mortgage Approvals (09.30), US Personal Income (13.30), US Core PCE (13.30)

Tues: UK Consumer Sentiment (00.01), Ger Unemployment (09.00), UK Current Account (09.30), Euro-Zone HICP (10.00), US Case Shiller (14.00), Chicago PMI (14.45), US Consumer Confidence (15.00)

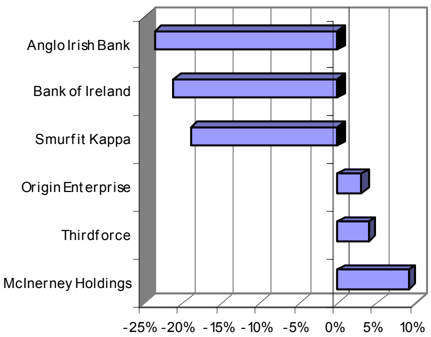
Wed: EZ Manufacturing PMI (09.00), UK Manufacturing PM (09.30), IRE Unemployment Rate (11.00), US IASM Manufacturing (15.00)

Thurs: UK House Prices (07.00), EZ PPI (10.00), ECB Rate Announcement (12.45), US Initial Jobless Claims (13.30), IR Exchequer Bal (16.30)

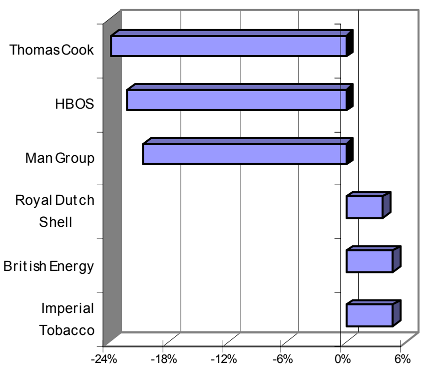
Fri: EZ Services PMI (09.00), UK Services PMI (09.30), EZ Retail Sales (10.00), US Non Farm Payrolls (13.30)

Last Weeks Best/ Worst Performers
22/09/08-26/09/08

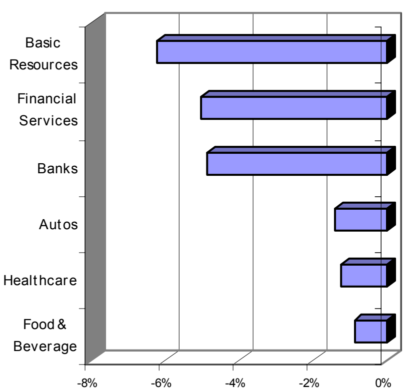
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-3.7%	-61.7%	Irish Government raises deposit guarantee to €100,00
Aviva	-8.3%	-23.0%	Aviva consolidates its various asset management businesses worldwide to form Aviva Investors.
BP	-0.4%	-20.6%	BP's Texas City refineries have been restarted following hurricane Ike.
IN&M	-5.1%	-45.1%	UK Peer Daily Mail & General Trust says full year results will be at lower end of expectations.
E.ON	3.0%	-27.2%	Goldman Sachs reiterated its buy rating on E.On
CRH	-4.2%	-28.9%	Texas industries warns amis weak Californian markets and higher fuel costs.
Hewlett Packard	-0.9%	-4.6%	HP announces it is exclusive systems and integration provider for Oracle Exadata Storage Server.
Aryzta	-11.9%	11.4%	Aryzta posts a pro forma operating profit of €262m.
IL&P	-6.3%	-51.3%	Irish house prices fell by 10% on the year, and 0.9% on the month according to Permanent TSB & ERSI.
Microsoft	8.9%	-24.2%	Microsoft announces it is cutting the price of the Xbox in four Asian markets.
Paddy Power	-8.6%	-43.6%	Recently announced that full-year profits will not meet expectations
Vodafone	-4.1%	-32.9%	Vodafone announces the appointment of two new bosses to run its emerging markets division.

What it says in the 'Sundays'

Company	Paper	Headline
Irish Banks	S. Independent	Irish banks to cash in on US rescue package
Anglo Irish Bank	S. Independent	FitzPatrick deal dashes hopes for Nationwide bid
Aryzta	S.B.Post	Aryzta gets off to a flying start
Waterford Wedg	S.B.Post	Waterford agrees to potential London delidsting
Banks	S.Tribune	Developers to stay afloat using tax refunds on property
Greencore	S.Tribune	Greencore gets the all clear from KPMG

Corporate Visits

COMPANY	PRESENTATION DATE
ThirdForce	19th September

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	3785	-8.5%	-45.4%	5.7%	6.1
FTSE 100	5088	-4.2%	-21.2%	5.1%	10.1
DAX	6064	-2.0%	-24.8%	4.2%	11.9
Dow Jones	11143	-2.2%	-16.0%	2.9%	13.7
S&P 500	1213	-3.3%	-17.4%	2.5%	23.6
Nasdaq	2183	-4.0%	-17.7%	0.9%	35.7
EuroStoxx 50	2722	-3.1%	-26.1%	4.9%	10.8
Nikkei 225	11893	-0.2%	-22.3%	1.8%	14.3

Sector

Sector	Weekly move%	YTD move %
Food&Bev	-0.89	-19.00
Healthcare	-1.24	-11.06
Autos	-1.41	-28.08
Retail	-1.47	-32.24
Media	-1.72	-33.45
Telecom	-1.81	-31.50
Utilities	-1.91	-26.21
Personal & Household Goods	-1.95	-25.50
Travel & Leisure	-2.07	-32.74
Technology	-2.16	-32.70
Chemicals	-2.57	-21.05
Construction & Materials	-2.71	-37.05
Industrials	-2.76	-30.68
Oil & Gas	-3.16	-26.21
Insurance	-4.49	-27.85
Banks	-4.85	-36.71
Financial Services	-5.04	-36.68
Basic Resources	-6.19	-38.22

Commodities

	Current	Change YTD
Crude Oil	$106.89	11.6%
Gold spot	$886.25	6.3%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.461	0.1%	1.45-1.50
EUR-GBP	0.795	8.1%	0.74-0.78
EUR-JPY	155.02	-4.8%	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	4.25%	5.14%	4.25%
UK	5.00%	6.26%	4.75%
US	2.00%	3.76%	2.00%

Credit Market Summary

Although last week was less volatile than the week preceding it, it was by no means uneventful. Warren Buffet made headlines by making his second ever foray down Wall Street with a stake in Goldman Sachs. The failure of Washington Mutual makes it the largest US bank default in history. However both of these events were largely ignored as markets moved back and forth with every new development in the US Troubled Asset Relief Programme (TARP). Credit spreads moved wider throughout the week, as bickering by US politicians continued, although spreads were still significantly tighter from the extremes seen the previous week. Looking forward on the week, market sentiment will continue to be driven by the progress of the finalised TARP through the US houses of Congress and Senate.

Credit Sector Movements

Irish Banks-Spreads mixed across the sector. Anglo Irish Banks spreads closed the week at 607bps, 86 bps wider on the week. This compares to a level of 311bps at the start of the month. AIB is still faring the best, its spreads closed the week at 274bps, narrower by 29bps. Bank of Ireland spreads also finished the week tighter at 319, compared to the previous weeks close of 344. Irish Permanent spreads widened on the week, closing at 343, 19bps wider.

Interest Rate Outlook

Main event this week is the ECB meeting on Thursday with no rate change expected. Trichet is expected to continue with his neutral basis on interest rates. The other key data release for the week is due on Friday from the US and this is Non-Farm Payrolls. Weekly Initial Claims have continued to rise over the past number of months and this should finally be reflected in Non-Farm. The market is expecting 90,000, but a higher figure is a risk and will highlight the weak economic conditions in the US.

For the UK, next week is key with the BOE meeting with a possibility of a rate cut due to the weak economic conditions.

Currency Comment

EUR/GBP

Despite all the upheaval last week EUR/GBP stayed with a range between 0.79 and 0.80. This week data from the UK includes Consumer confidence on Tuesday with a new decade low expected at -40. On Thursday, Nationwide releases house price data and the fall in UK housing continues with 12.6% decline expected. For the week, the tight range from last week will continue with no catalyst in the market to provide an upper hand to either currency.

EUR/USD

The Euro held onto its gains from the week before and came close to the 1.49 area. An outlook on the US housing market will be released on Tuesday with the Case Shiller housing indicator and the market is expecting a fall of 16%. On Weds Manufacturing PMI is expected to come out of recessionary level and the market expects a level of 50. Thursday will have the Initial Jobless Claims and after the large increase last week a figure above 500k is a possibility.

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