DOLMEN STOCKBROKERS

# Traders Update

MARKET COMMENT MONDAY 2ND FEBRUARY 2009

While equity markets posted modest gains last week, they remained firmly within the trading ranges that have been in play since last October. While expectations for a Stimulus Package and 'Bad Bank' rally were high in the earlier part of the week, these expectations receded as earnings numbers disappointed, the level of job losses increased daily and the number of companies cutting back on capital spending grew. Equity markets badly need a stimulus to break out of their stupor, however disappointment with the make-up of Pres. Obama's Stimulus Package (insufficient tax cuts), the partisan nature of the vote (not one Republican voted for the bill, while 11 Democrats voted against it) and the lack of news on the creation of a 'Bad Bank' failed to provide this stimulus. Equally, earnings failed to provide a boost with year-on-year declines of 11.5% (ex-financials) being recorded with only three sectors- energy, healthcare and utilities- showing gains. Another concern for equity markets is the tightness in credit markets which will pressurise those companies who need to re-finance maturing debt. The risk is growing that as refinancing in the debt markets may not be possible or may be too expensive, then we will see a surge in the issuance of new equity as companies attempt to raise cash. The focus in the coming week will be on the US Non-Farm Payrolls as well as the Bank of England and ECB meetings and markets will be hoping for some positive support from these events. One final point- in 60 of the last 80 years the performance of the S&P in January has accurately predicted how markets will finish the year (Source: Standard & Poor's).

## TRADING IDEAS, EARNINGS & PREVIEWS

### Vodafone

**Price:** 128p
**P/E:** 9.5x
**Div:** 5.9%
**Target:** 140p

**Buy**

Vodafone is due to issue a quarterly management statement tomorrow. At its interim results in November while the company did lower its 2009 revenue guidance it increased its free cashflow forecast to £5.2bn - £5.7bn and it reiterated its operating profit forecast range of £11bn-£11.5bn. In light of the current downturn Vodafone has embarked on a significant cost cutting program in an attempt to preserve cash. Vodafone has said that it will reduce costs by £1bn per year through 2011. While Vodafone's European market is clearly slowing it has expanded significantly in emerging markets in particular in India where growth in the telecom space continues to be strong. In addition, last week Dutch peer of Vodafone, KPN, reported a strong set of fourth quarter results and confirmed its earnings forecasts through 2010. We take this as a significant positive for Vodafone's European division as it indicates that there was not a significant decline in the market. Current expectations are for Vodafone to show a 10%-12% increase in revenue. We believe that there is potential upside to this figure given that it is a major beneficiary of the weak sterling as it generates the majority of its revenue in Europe. (see trade of the week for covered call strategy).

### Auto Sector

**SELL**

**BMW**
**Price:** €17.60
**Target :** €16.00

**Daimler**
**Price:** €21.19
**Target :** €20.00

We believe that the auto sector is likely to remain under pressure for the whole of 2009 and see a significant threat to earnings and expect further dividend cuts from companies within the sector. Two weeks ago Fiat issued a disappointing set of earnings with net income falling by 71% and the company also cutting its dividend. We feel that BMW and Daimler are most at risk to the current downturn given that they operate in the luxury end of the car market and they generate the majority of their revenue from the European and US markets. While both companies look inexpensive with BMW trading at 8.2x earnings and providing a dividend yield of 5.7% and Daimler trading at 7.5x and providing a dividend yield of 9%, given the downturn in global economic activity and continued deterioration in the car market we believe that earnings estimates are likely to come down further and expect both companies to potentially cut their dividends by 50%. We would look to sell shares short in both companies. The next catalyst for BMW is on 3rd of March when the group will report full year results while Daimler will report results on 17th March. We expect both companies to issue cautious outlooks for 2009.

### BP

**Price:** 482p
**P/E:** 5.1x
**Div:** 6.0%
**Target:** £7.00

**Buy**

On Tuesday BP will report its Q4 and full year results. The tone has already been set by the bulk of the "supermajors" reporting last week. Overall there have been few surprises, with earnings excluding items that were close to analyst estimates. Energy prices, as well as refining margins declined steeply in the quarter. Production wise, BP should have had a solid quarter, with increases from key production operations including Thunder Horse. Dividend guidance will be key, our expectations are for a flat to slight increase in dividend levels. Given the delayed computation of the Russian tax system, tax charges from previous quarters will wipe-out Q4 earnings from TNK-BP, but this has been flagged to the market. BP is our top pick in the Oil & Gas sector and we are comfortable buying at current levels. M&A is likely to increase in the energy sector in the coming months. BP may choose to dispose of non-core assets, including its stake in CPC to Lukoil

### Ryanair

**Price:** €3.01
**P/E:** 12.5x
**Target:** €3.45

**Buy**

Ryanair released better than expected 3rd quarter results this morning, posting a net loss of €102m. This is down from a profit of €35m last year, but ahead of market expectations for a loss of up to €130m. Its average fare performance was also better than feared with passenger yields falling by only 9%, stronger than the 14% decline the market had been forecasting. With traffic growing 13% to 14m, revenues rose 6% to €604.5m. This was largely eroded however by a 71% increase in fuel costs to €328m. It also raised its guidance for the year ending 31st March 2009, with the airline now expecting to post a net profit after tax in a range of between €50m to €80m, improved from the breakeven result it had previously anticipated. The airline also updated the market about it latest fuel hedging activity, with the airline now 75% of Q1 and Q2, and 50% of Q3, at an average price of $65 a barrel. These results are better than we had expected and we reiterate our Buy recommendation.

### WPP

**Price:** 391p
**P/E:** 7.5x
**Div:** 3.4%
**Target:** £3.00

**Sell**

WPP is a world leader in marketing communications services, comprising of leading companies in areas that include advertising, media information management, public relations, branding and identity, and specialist communications. The company works with over 340 of the Fortune Global 500 companies and has as some of its biggest clients companies such as Allianz, Dell, Ford, HSBC, Shell, Unilever and Vodafone.The company generates revenues of over £6bn with North America accounting for 40%, UK 14%, Europe 26% and Asia/LatAm/Africa/Mid-East 22%. On a sector basis, advertising and media accounts for just over 50% of revenues and profits which in the current climate of slower global growth and the emerging trend of cut-backs in capital spending by companies world-wide, leaves WPP highly vulnerable to a significant slowdown in profits. The company releases full year profits on 6th March.

The current reporting season continues with a spate of US, UK and European companies all scheduled to report results over the coming week. In our year-end strategy document we cautioned that earnings during the first half of 2009 would decline as the impact of slower global growth and faultering consumer demand as a result of rising unemployment. Accordingly we advised clients to focus on those sector with earnings visibility. To date, earnings for the S&P companies that have reported so far have declined by 11.5% with only three sectors showing positive earnings- utilities, energy and healthcare, while consumer discretioary (staples) is also showing a broadly positive earnings trend. The following table shows the outlook for earnings for 2009 and highlights the pattern that has emerged over the last year that the more defensive market sectors will continue to deliver earnings growth.

**SECTOR EARNINGS GROWTH FORECASTS FOR 2009**

| SECTOR | EPS GROWTH (F) | Sector | EPS GROWTH (F) |
|---|---|---|---|
| Technology | 58.0% | Retail | 0.00% |
| Healthcare | 29.0% | Media | -4.00% |
| Travel & Leisure | 25.0% | Industrial Goods | -5.00% |
| Insurance | 19.0% | Chemicals | -7.20% |
| Telecommunications | 18.6% | Construction & Materials | -20.00% |
| Personal & Household Goods | 18.2% | Oil & Gas | -29.00% |
| Banks | 14.0% | Basic Resources | -40.00% |
| Utilities | 4.0% | Autos & Parts | -75.00% |
| Food & Beverage | 0.00% | | |

**Notes:** Travel and Leisure includes gaming stocks;
Banks and Insurers are coming from a very low prior-year base;
Oil & Gas earnings growth while negative, is a function of the weaker oil price and has the potential to surprise to the upside on any recovery in oil prices. The weaker earnings numbers have already been discounted by the market.

## Earnings Week Ahead

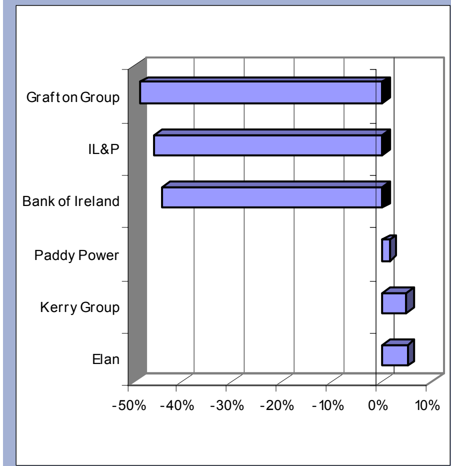
**Mon:** Ryanair (Q3), Dyckerhoff (Prelim), SThree (Prelim), Mattel (Q4).
**Tues:** BP (Q4), SAS (Q4), Vodafone (Trading), DR Horton (Q1), Emerson (Q1), Rockwell Collins (Q1), Walt Disney (Q1), Marathon Oil (Q4), Merck & Co. (Q4) Motorola (Q4), Dow Chemical (Q4), UPS (Q4).
**Wed:** Electrolux (Q4), Roche Holding(Final), Cisco Sys(Q2), Allergan (Q4), Kraft Foods(Q4), Philip Morris (Q4), Time Warner (Q4).
**Thurs:** Prudential Financial(Q4), Danske Bank(Q4), BHP Billiton (Q4), BG Group(Q4), Glaxo Smith Kline(Q4), National Grid(Trading), Unilever(Q4), Yell Group(Q3), Zurich Fin.Services(Final), Kelloggs (Q4), Moody's(Q4), Mastercard(Q4).
**Fri:** Volvo(Q4), Julius Baer (Q4), British Airways (Q3), Biogen(Q4).

## Economic Week Ahead

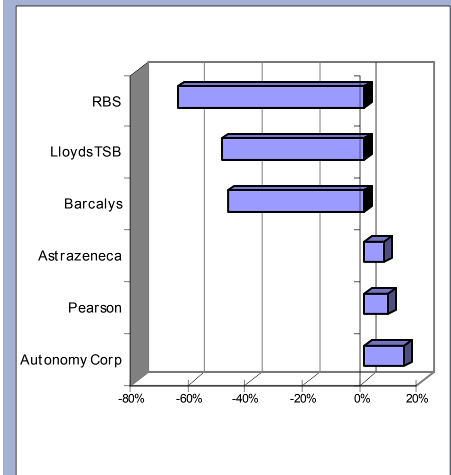
**Mon:** EU&Ger PMI (09:00),US Personal Income(13:30), US ISM Manuf.(15:00).
**Tues:** UK PMI Construction(09:30),EU PPI(10:00),US Pending Home Sale(15:00)
**Wed:** Irl. Unemployment (11:00), Irl Live Register (11:00), EU Retail Sales(10:00) EU&Ger/UK PMI Services (09:00/09:30), US MBA M'gage Apps (12:00), US ADP Employment (13:15).
**Thurs:** BoE Rate Decision (12:00), ECB Rate Decision (12:45), US Initial Jobless Claims (13:30), US Factory Orders (15:00).
**Fri:** UK& Ger Industrial Prod.(09:30), US Non-Farm Payrolls(13:30), US Unemployment (13:30), US Consumer Credit (20:00).

## Last Weeks Best/ Worst Performers
26/01/09-30/01/09

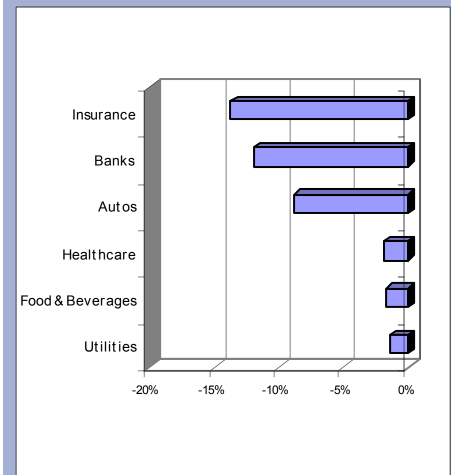
### ISEQ




### FTSE




### Sector changes WTD




# Dolmen Dozen
WEEKLY UPDATE

| Company | YTD | Relevant news |
|---|---|---|
| Aryzta | -14.3% | Peer Premier foods sells its speciality bakery group. |
| BP | -6.6% | Ahead of its Q4 results on Tuesday the 3rd February. |
| CRH | 1.8% | CRH announces the acquisition of Pavestone will not proceed |
| E.ON | -11.2% | E.ON plans to invest £4bn in its gas grid. |
| Hewlett-Packard | -3.3% | Apple releases Q4 results that are better than expected. |
| IL&P | 8.4% | CEO Denis Casey says he sees no probability of further nationalisation of Irish banks. |
| IN&M | -37.6% | Concerns over its ability to pay down its debt. |
| J&J | -4.2% | Johnson & Johnson reports fourth quarter earnings of $2.71bn, compared with $2.37bn a year earlier. |
| JPMorgan | -17.9% | Ahead of the group's full year results on 21/01/2009 Goldman Sachs adds JP Morgan to conviction buy list. |
| Microsoft | -11.4% | Microsoft releases second quarter results that are worse than analysts' expectations. . |
| Paddy Power | -19.6% | UK gambling levy unlikely to effect earnings |
| Vodafone | -6.8% | Morgan Stanley raises its price target on Vodafone to 190p from 178p. |

## What it says in the 'Sundays'

| Company | Paper | Headline |
|---|---|---|
| Anglo Irish Bank | S.Tribune | Top investment firms poised to sue Anglo Irish |
| Ryanair | S.Tribune | Ryanair sacrifices profits for growth |
| Irish Banks | S. Business Post | Banks move on developers over property loans |
| Banks | S. Business Post | Ulster troubles claim First Active victim |
| BT | Sunday Times | Phone giant BT hangs up on the fight for Irish customers |

## Corporate Visits

| COMPANY | PRESENTATION DATE |
|---|---|
| Grafton Group | Date to be confirmed |

# Last Weeks Moves

## Equities

| Equities | Level | Change WTD | Change YTD | Div Yield | P/E09 |
|---|---|---|---|---|---|
| ISEQ | 2311 | 1.5% | -1.3% | 7.3% | 4.6 |
| FTSE 100 | 4150 | 2.4% | -6.4% | 6.4% | 7.8 |
| DAX | 4338 | -0.6% | -9.8% | 6.0% | 9.0 |
| Dow Jones | 8001 | -1.0% | -8.8% | 3.9% | 10.6 |
| S&P 500 | 826 | -2.8% | -8.5% | 3.4% | 19.5 |
| Nasdaq | 1476 | 0.0% | -6.4% | 1.4% | 48.4 |
| EuroStoxx 50 | 1983 | 4.3% | -4.8% | 6.6% | 8.4 |
| Nikkei 225 | 7994 | 3.2% | -9.8% | 2.8% | 14.2 |

## Sector

| Sector | Weekly move% | YTD move % |
|---|---|---|
| Banks | 16.59 | -9.74 |
| Insurance | 10.03 | -11.31 |
| Oil & Gas | 6.36 | 2.69 |
| Industrials | 6.20 | -3.66 |
| Autos | 5.69 | -10.11 |
| Personal & Household Goods | 5.59 | 1.69 |
| Retail | 5.46 | 5.45 |
| Media | 4.95 | -1.37 |
| Basic Resources | 4.69 | -1.38 |
| Technology | 4.49 | -0.41 |
| Travel & Leisure | 4.06 | -4.57 |
| Construction & Materials | 3.08 | -8.69 |
| Financial Services | 2.86 | -8.47 |
| Utilities | 1.52 | -5.6 |
| Food&Bev | 1.45 | -0.04 |
| Chemicals | 1.16 | -5.9 |
| Healthcare | -1.19 | 0.23 |
| Telecom | -1.24 | -5.83 |

## Commodities

| | Current | Change YTD |
|---|---|---|
| Crude Oil | $41.68 | -6.5% |
| Gold spot | $927.85 | 5.5% |

## Exchange Rates

| | Current | YTD Change | Year End (est) |
|---|---|---|---|
| EUR-USD | 1.281 | -12.2% | 1.40 |
| EUR-GBP | 0.881 | -7.8% | 0.93 |
| EUR-JPY | 115.24 | -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% | 2.09% | 1.50% |
| UK | 1.50% | 2.17% | 1.00% |
| US | 0.00% - 0.25% | 1.18% | 0.0% - 0.25% |

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