DOLMEN STOCKBROKERS

Traders Update

MARKET COMMENT

JUNE 2ND 2009

Equity markets finished the month on a rather subdued note as investors fretted over the continuing weakness in bond markets with the US 10 Year Treasury yield rising to 3.7%. While this yield in itself is not high in historic terms, it has had the effect of feeding through to US mortgage rates which the Fed have been attempting to reduce in an attempt to kick-start the US housing market. With house-price data during the week continuing to show weakness and the level of Prime mortgage delinquencies now standing at 6% (the historic running rate for this figure has been 3%) the last thing the US homeowner needs is higher re-financing costs. The read across for the broader economy with such an issue is clearly not positive as it will add further pressure to already fragile consumer spending patterns. Equity markets have traded sideways now for a month with a range from the month high and low of just 4.5% in the FTSE, Dow and S&P, a range that was characterised by very low trading volumes. While credit markets continue to perform well and the recognised reading of investor fear the VIX now trading at pre-Lehman levels, there is an air of uncertainty in the market caused by the fact that bar the Consumer Confidence reading last week, there have been no positive surprises to recent economic releases. From a situation in March and April where no bad news was positive for markets, to one now where no good news is disappointing, the excessive optimism that fuelled the March rally has been curbed somewhat. Accordingly, in the absence of some positive surprises in the data releases, we are reluctant to aggressive chase this market, preferring instead to bide our time for a more attractive entry level. The key areas of focus this week for equity markets will be: **US bond yields** ; **Pending Home Sales (Tues**) for possible signs of stability; and **Non-Farm Payrolls (Fri**) where signs of a moderation in job losses would be welcome.

TRADING IDEAS, EARNINGS & PREVIEWS

Irish Financials

Anglo Irish Bank released interim results on Friday recording the largest loss in Irish financial history. The loss before tax was €4.04bn compared to a profit of €647m in the same period last year. The reason for the large loss was due to impairment charges for loans for the period which were €4.09bn or almost 6% of the average loan book. The size of the loss has almost completely destroyed the equity capital base of the bank with core tier 1 capital now at 1.4%, significantly below the minimum required of 4%. The Irish Government have agreed to inject €4bn of capital into the group once approval is granted for the injection by the European Commission and the bank will also be included in NAMA. Exception from the capital requirements have been granted by the Central Bank till the end of July. Customer deposits fell in the half year by €13.7bn and the loan to deposit ratio has moved from 1.4x to 1.95x. The decline in customer deposits was mainly due to heavy outflows in corporate deposits, falling by €14.5bn and this was off-set slightly by an increase of €800m in retail deposits. To replace this outflow the Central Bank has provided a collateralised liquidity line of €10bn to the bank and other Central Banks have provided €13.5bn of funding. This level of funding taken from Central Banks is almost 30% of the balance sheet, highlighting the future of the group is entirely dependent on government support to be able to finance its balance sheet. Asset quality of the loan book has declined since September with impairment losses now expected to be €7.5bn, but this estimate could be lower or higher with management guiding a range of €6.4 to €8.4bn. The majority of the impairments related to Ireland (80%) with the development loan book the largest contributor. A further €339m impairment charge was put against loans to "ten longstanding clients of the bank" and loans to former directors where the security was shares in Anglo Irish Bank.

The future for Anglo Irish Bank remains uncertain following these results, but it remains a draw on state resources. The bank will buy back certain subordinated debt issues that are trading at a significant discount to par to increase capital. The results show the main issues at the moment facing banks is development loans and this was the area of the largest loan losses at the half year. This is a negative for AIB due to the €22bn of development loans on its balance sheet. The results are a negative for the Irish Government as the bank will require cash deposits from the state while it rebuilds its deposit base and reduce the size of the loan book. Further capital injection could also be required if loan losses increase above €7.5bn as guided by management. With the government facing large deficits in the next three years, these cash calls will increase the national debt further. Yields and Credit Default Swaps (CDS) spreads have remained stable after the results, but they had moved higher in the last week before the release

CRH

Price: €17.56
P/E: 13.5x
Div: 3.8%
Target: €19.00
Buy

CRH recently issued a trading statement for the first four months of the year. The group pointed out that trading conditions had been extremely challenging impacted by weak economic activity and poor weather conditions. As a result EPS estimates for CRH for 2009 have declined by c. 5% to €1.30. On a long-term view we continue to like CRH as a strong recovery play and it will benefit from the stimulus infrastructure projects that are about to commence in the US. However, given the stock is currently trading at 14x 2009 earnings with no growth expected this year and 2010, we expect many of its markets will remain under pressure for the foreseeable future. We would be trading buyers of the stock at c. €16.00 which would place the group at 12x 2009 earnings. CRH will issue a further trading statement on July 7th.

Cisco

Price: $18.33
P/E : 14.2x
Div: 0.00%
Target: $23
Buy

One of our recent additions to our preferred US stock list, Cisco, was added to the Dow Jones 30 index yesterday. Cisco's principal activities are to design, develop, manufacture and market technical support for networking and other products and services related to the provision of communications and information technology. The group has operations throughout the world including the Americas, Europe, Middle East and Asia. Cisco generates c. 46% of its revenue outside of the US and will be a beneficiary of the weak $. Recent comments from the group's CEO, John Chambers (recognised as one of the top CEO's in the US) have turned more positive as orders for its equipment have picked up. Cisco will be one of the biggest beneficiaries in the technology sector from the US infrastructure stimulus project with significant spending on state projects including schools, universities and hospitals on technology equipment. The group also benefits from a net cash position of c. $20bn.

McDonalds

Price: $59.85
P/E: 15x
Div: 3.4%
Target: $63.00
Buy

McDonalds remains one of our top US picks. The group's recent April sales figures showed a global increase of 6.9% highlight its defensive characteristics despite the current economic downturn. All of the group's geographical regions put in strong performances. US sales increased by 6.1%, European sales by 8.9%. Sales in the group's APMEA region increased by over 6%. The strong performance is all the more admirable given that peers Wendy's and Burger King have both recently issued profit warnings. McDonalds is clearly continuing to take market share from its peers. The group's McCafe is also proving a draw for customers and its lower priced offering is taking market share from the likes of Starbucks. McDonalds trades at c. 15x forward earnings, a multiple that we view as attractive, given its growth prospects and brand recognition. McDonalds' pays an attractive dividend yield of 3.4% and is due to release monthly sales figures on June 8th.

Ryanair

Price: €3.59
P/E: 13x
Target: €3.70
Neutral

Ryanair has reported a full year net profit of €105m this morning, down 78% from last year but ahead of the group's guidance and market expectations of €80m. Revenue rose by 8% to €2,942m as average fares fell only 8% to €40, considerably less than market expectations, while traffic grew 15% to €58.5m. Fuel costs rose by 59% to €1.257bn and accounted for over 45% of total operating costs compared to 37% in fiscal 2008. It has extended its fuel hedging programme with 90% of its jet fuel requirements for the first three quarters of FY10 hedged at $62 a barrel and 5% of Q4 at c.$50 a barrel. Ancillary revenues grew by 23% to €598m and Ryaniar has now achieved its target of ancillary revenues equalling 20% of total revenues. However key in today's announcement was the group's 2010 average fare outlook. It intends to continue its market share growth strategy and expects that a combination of weaker sterling and capacity growth will cause average fares to fall by between 15% to 20% to as little as €32 this year. Incorporating these assumptions, it expects that after tax profits for the full year 2010 to at least double to a range between €200m to €300m. We will be issuing a detailed note over the coming days and we expect to be lowering our 2010 eps forecast closer to the 20c mark down from 27c.

Earnings Week Ahead

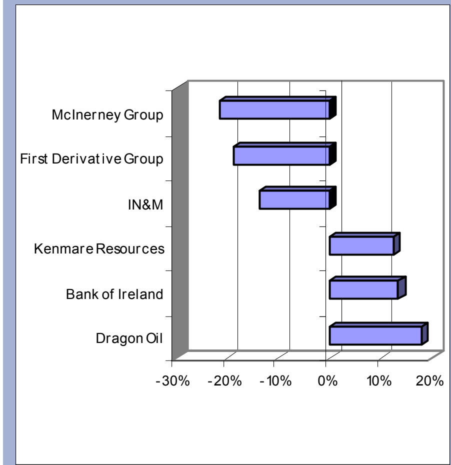
Mon: * *No significant announcements*
Tues: (Ryanair, Q2) (Aryzta, Q2) (Kingfisher, Q1) (GB Group, FY) (WPP, AGM) (Ford, May Sales) (GM, May Sales)
Wed: (BA, Traffic) (Sportingbet, Q2)
Thurs: (easyJet, Traffic) (Wm Morrison, Q2) (WH Smith, Trade) (GAP, Sales) (JC Penny, Sales)
Fri: (Lloyds, AGM) (Barclays, AGM) (Carphone Warehouse, FY) (Aer Lingus, S/ Holders)

Economic Week Ahead

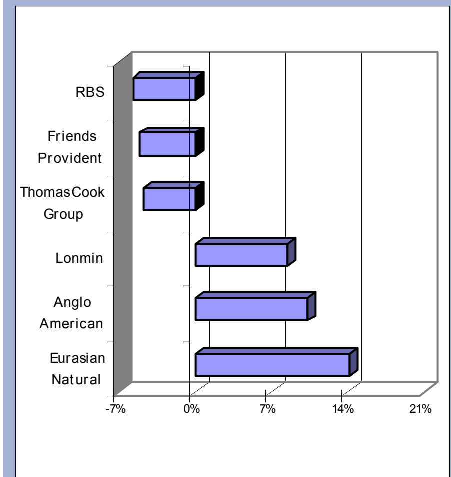
Mon: GE PMI Manufacturing (08:55) EC PMI Manufacturing (9:00) UK PMI Manufacturing (9:30) US Personal Income (13:30) US PCI Core (13:30)
Tues: UK Net Consumer Credit (09:30), UK M4 Money Supply (09:30), UK PMI Construction (09:30), US Pending Home Sales MoM (15:00),
Wed: GE PMI Services (08:55), EC PMI Services (09:00), UK PMI Services (09:30), EC Euro-Zone PPI (10:00), EC Euro-Zone GDP (10:00), US MBA Mortgage Applications (12:00), US Challenger Job Cuts (12:30), US ADP Employment Change
Thurs: EC Euro-Zone Retail Sales (10:00) UK BOE ANNOUNCES RATES (12:00) EC ECB Announces Interest Rates (12:45) US Initial Jobless Claims (13:30) CA Bank of Canada Rate (14:00)
Fri: UK PPI Input NSA (09:30) UK PPI Output n.s.a. (09:30)US Change in Nonfarm Payrolls (13:30) US Consumer Credit (20:00)

Last Weeks Best/ Worst Performers
25/05/09-29/05/09

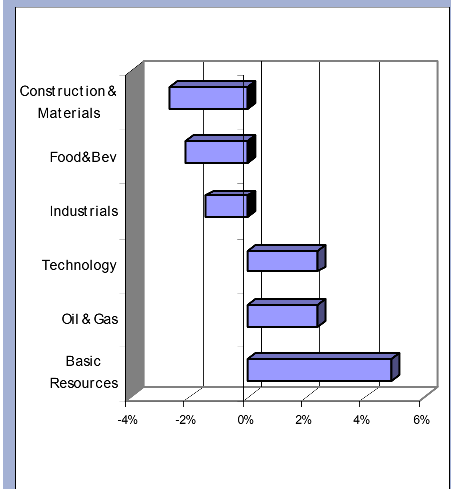
ISEQ



FTSE



Sector changes WTD



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WEEKLY UPDATE

Company	YTD	Relevant news
Aryzta	-4.8%	Aryzta posts results in line with expectations and reiterates full year eps guidance
BP	-4.8%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	0.3%	Trading update indicates conditions remain challenging
DCC	38.8%	Game group results point to continued resilience in computer game market
E.ON	-12.4%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	-5.2%	Peer Intel posts better than expected Q1 results.
IL&P	91.1%	Speculation surrounding restructuring of the group persist.
IN&M	-31.7%	Awaiting details on bond refinancing
J&J	-7.6%	J&J reports resilient Q1 earnings.
JPMorgan	11.0%	JPMorgan successfully issues $3bn non-government guaranteed bond at T+350bps.
Microsoft	1.9%	Micosoft will deliver $1.5bn annual saving by the middle of 2010 through 5000 headcount reduction.
Vodafone	16.9%	Vodafone posts results in line with expectations

What it says in the 'Sundays'

Company	Paper	Headline
rish Banks	S.Tribune	Developers forced to cut prices by NAMA
Irish Banks	S.Tribune	State baulked at €60bn cost of winding up ANglo
Greencore	S.Independent	Greencore clobbered by a sterling exchange rate
Ryanair	S. Business Post	Ryanair offers its Aer Lingus vote at AGM to the gov ernment
Irish banks	S. Business Post	State's €1bn bid to cut the cost of Anglo bailout

Corporate Visits

COMPANY	PRESENTATION DATE
Paddy Power	10th June

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2,852	5.9%	21.9%	2.8	14.6
FTSE	4,484	1.6%	1.1%	4.6	30.5
DAX	5,145	4.6%	7.0%	4.3	26.7
DOW	8,721	1.0%	-0.6%	3.4	21.5
500	942	6.3%	4.3%	3.0	15.4
NAS	1,828	4.5%	15.9%	1.1	27.9
EURSTOX	2,175	3.6%	3.6%	4.7	19.6
NIKKEI	9704	5.1%	9.5%	1.9	73.8

Sector

Sector	Weekly move%	YTD move %
Basic Resources	4.88	43.21
Oil & Gas	2.35	11.60
Technology	2.34	12.24
Retail	1.80	14.12
Banks	1.62	21.26
Telecom	1.15	-9.57
Financial Services	0.79	15.17
Travel & Leisure	0.67	5.05
Media	0.60	-1.05
Autos	0.56	5.06
Utilities	0.49	-8.73
Personal & Household Goods	-0.12	5.46
Chemicals	-0.17	8.07
Healthcare	-0.41	-8.55
Insurance	-0.70	-7.32
Industrials	-1.46	6.71
Food&Bev	-2.12	-1.12
Construction & Materials	-2.65	6.60

Commodities

	Current	Change YTD
Crude	68.10	31.5%
Gold	976.5	11.1%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR USD	1.4218	-1.2%	1.40
EUR GBP	0.8648	-9.5%	0.93
EUR JPY	136.14	6.8%	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%	1.31%	1.00%
UK	0.50%	1.42%	0.50%
US	0.00% - 0.25%	0.94%	0.0% - 0.25%

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