



While equity markets finished the month on a more subdued note, it did not take away from an impressive monthly performance that saw gains of 8.4% for the FTSE, 7.5% for the S&P and 11% for the Dax. Even the Irish market participated in the rally, albeit in a more modest way, with the ISEQ up 3.6% for the month. The key catalysts for this strong monthly performance were the better than expected second quarter reporting season which saw results on average come in approximately 10% ahead of consensus expectations, despite misses from Microsoft and American Express. The common theme amongst the vast majority of the CEO statements accompanying the results was that the worst of the downturn is over and that the outlook for the second half of the year is improving, even though they remained low-key about the pace of the improvement. Supporting this prognosis were the economic data releases during the month, particularly the housing data from the US which saw sales increase and the first price rise- only 0.5%, but a rise nonetheless- in three years. At the start of the year we stated that for equity markets to stage a meaningful recovery we would need to see stability in the banking, housing and labour markets. To date we have seen the newsflow from two of these markets, banking and housing, show some signs of stabilisation, however there is still some way to go before a meaningful recovery can be confirmed. The third leg of our trio is the labour market, and while very much a lagging indicator, still has further weakness ahead before we see a bottom. In this regard Fridays Non-Farm Payroll data will be important for equity markets. Assuming an in-line reading of -340,000, equity markets should manage to add to recent gains. In the run-up to this number however we believe markets will trade sideways given the extent of the rally in the last three weeks.

## TRADING IDEAS, EARNINGS & PREVIEWS

Discussion is continuing in relation to the National Asset Management Agency (NAMA). The main opposition parties have focused on the exposure the Irish taxpayer is facing from the creation of the agency. The Bill doesn't provide any indication of what the haircut or discount that will be applied by NAMA when purchasing the loans. The Bill does state each loan will be valued separately. The valuation of the underlying collateral will be based on current market value and will be adjusted "to reflect a longer term economic value" that the underlying collateral could achieve. The Bill implies the Government will not pay current prices for the assets, but it will not pay the maximum theoretical value for them either. On the new debt to be issued by the Government to pay for the purchase of bank loans by NAMA, it is expected this will appear "off balance sheet". From a statistical perspective the Statistical Office of the European Communities, Eurostat may treat the payment for the loans as a swap, where the assets are used to off-set the liability and therefore will not include the "NAMA Bonds" in our national debt calculations. The release of the Bill is a positive step for the Irish banking sector. While uncertainty still exists over the Irish banks, we now have a timeline on when NAMA will be implemented and when it will be finished moving assets from bank's balance sheets. The Government's comments on supporting the banks and avoiding nationalisation are positive for bond holders. Risk still exists for equity holders to be diluted, but with the Government against full nationalisation Lower Tier 2 bonds of Irish banks are attractive.

The release of the details on NAMA have overshadowed AIB's interims due on Wednesday. We expect a net loss of €1.2bn with pre-provision profits at €1.1bn (Both figures excluding profits from recent debt buyback). The market will be looking at loan impairments and the increase in criticised loans. The impairment charge should increase to 3.35% annualised of the average loan book with criticised loans increasing to almost 15% of the loan book. Recent results from Barclays and Standard Chartered have highlighted issues on Net Interest Margin (NIM) due to the increased competition for deposits and the increased cost of wholesale funding. These pressures are being faced by AIB also and we believe NIM will fall from the full year level of 2.21% close to 1.95%, with negative guidance for the remainder of the year. On NAMA the market will be looking for any guidance management will give on progress and the potential haircut, but this would seem unlikely.

Aviva will release interim results on Thursday morning. Concerns over the group's results in March of this year saw the share price collapse by 33% on the day of the release. The concerns were based on the capital position of the group, its exposure to commercial property and the level of dividend payout. The market will focus on management's decision on the dividend. The group has the highest dividend yield in the sector at 9.4%, but market is expecting the dividend to be cut. We expect the dividend to be cut by 25%, as management decide to retain capital. The interim dividend in this case will fall to 9.8p per share from 13.09p in the first half of 2008. On its IGD capital ratio, the decline to 126% at year end was taken negatively by the market, but since then the group has raised debt and sold an Australian business. The capital surplus will have improved since the end of 2008 and we estimate it will be circa 140% at the half year. The cut in dividend will help increase this further by year-end. On earnings, IFRS EPS is expected to be 22.1p and combined ratio will remain at 98% helped in part by reserve releases. The group is trading at a discount compared to its peers on an IFRS basis and we believe this is partly due to the capital and dividend issue. With both of these uncertainties to be removed in our opinion on Thursday, the results will be a positive catalyst for the share price.

We have adjusted our price target on Ryanair following a detailed review post Q1 results, and management conference call. On Monday, management guided towards the lower end of its previous €200m-€300m net profit range, on expected yield declines of 20% or greater. After adjusting for lower yields and net profit guidance as per management guidance, we are now expecting adjusted profits of €287m. The outlook for the industry remains bleak, given the very weak consumer sentiment. Flag carriers, Lufthansa, Air France, and British Airways all reported weak results, and are likely to be loss making for the full year. Although Ryanair is well placed in the industry, as a result of its low cost short haul model, the recessionary environment is impacting performance more than previously thought, as evident by the lower management guidance. Ryanair's balance sheet remained in good shape, with €2.5bn in cash, and net debt of €105m. The airline also updated on fuel hedging, with 90% hedging for this quarter and the next, and 60% for the following quarter, all at just over \$600 per ton. Given our lower profit expectation we are pulling back our price target on Ryanair to €3.30 per share. Given that Ryanair is currently trading close to this level, we are downgrading the stock to Neutral. Ryanair remains our preferred in the sector, and we would be looking to initiate new long positions, on a pullback towards €3.00. We are expecting traffic and capacity data for the month of July from British Airways tomorrow and EasyJet on Thursday, as well as Lufthansa and Iberia next Tuesday. These figures will give further insight into the level of consumer weakness in the sector.

During the week BHP Billiton announced an update to its iron ore negotiations. BHP has fixed 23% of its production at a 33% discount to previous year and a further 30% of the production has been sold on a mix of quarterly negotiated pricing, spot market, and index based pricing. Negotiation for the remaining 47% of production is ongoing. Agreements with many major Chinese steelmakers have yet to be reached, however we remain of the view that these agreements will be on favourable terms to the mining companies. Last week, Vedanta, Anglo American and Arcelor-Mittal all reported results, following on from other major metal producers in recent weeks. While the global economy has been weak so far this year, managements of most of these companies are more optimistic about the second half of the year. It remains our view that the outlook for commodities remains bullish. Structural under investment in recent decades, and the last 2 years in particular, will lead to supply shortages in future years for industrial metals once global economies return to growth. In recent months, the China State Reserve bureau has supported metal prices with its restocking activities. These efforts are likely concluded, and although Western economies are now beginning to restock, industrial metals could pullback from current levels. We would view any resultant weakness in the mining sector as attractive buying opportunities. Xstrata reported a strong set of results this morning, driven by greater than expected copper production. The company once again iterated the mutual benefits of a merger between itself, and peer Anglo American.

Last week, Microsoft and Yahoo announced a search deal to compete with Google. The proposed partnership is a 10-year agreement between the two companies whereby Microsoft will power the back-end of search for both companies, including self-service advertising which is to be fulfilled by Microsoft, while Yahoo will handle premium search for both companies. The structure of the deal is a positive for Microsoft as the company does not have to make any upfront payment and automatically elevates it to number two provider of internet search along with Yahoo. Elsewhere, while Microsoft reported a disappointing set of 4Q results two weeks ago its discipline on costs should be taken as a significant positive. The company should also benefit from an improved product portfolio with both Windows 7 and Office 2010 set to be released over the next year. At 14x forward earnings and with \$25bn of net cash on its balance sheet we believe the company represents excellent long-term value.

### Earnings Week Ahead

**Mon:** Loews Corp(Q2),Marathon Oil(Q2),Pulte Homes(Q2),Tyson Foods(Q3), Barclays (Interim), Hammerson (Interim), HSBC (Interim).

**Tues:** Vulcan Materials(Q2),Cameron(Q2),Kraft Foods(Q2),DR Horton(Q3), BNP Paribas(Interim),BMW(Q2),Deutsche Boerse(Q2),Hiedelberg Cement(Q2) UBS(Interim),Xstrata(Interim),Legal&Gen(Interim),WilliamHill(Interim).

**Wed:** Cisco Systems(Q1),Proctor&Gamble(Q4),Carlsberg(Q2),Axa(Interim), SocGen(Q2),Adidas(Q2),AIB(Interim), Anglo Irish Bank(Interim),BA (Traffic), Standard Life(Int),Taylor Wimpey(Int),Llyods(Int), Premier Foods(Int).

**Thurs:**Ameren Corp(Q2), CBS Corp(Q2),Prudential(Q2),ThomsonReuters(Q2), KBC Groep(Q2),Commerzbank(Q2),Easyjet(Traffic),Aviva(Int),Ladbrokes(Int)

**Fri:** Edison(Q2),Allianz(Q2),Hypo Re.Est(Q2),PUMA(Q2),SAS(Interim),RBS(Int).

### Economic Week Ahead

**Mon:** Ger PMI Manuf (09:00), UK PMI Manuf (09:30), IS ISM Manuf(15:00).

**Tues:** UK PMI Constr(09:30),EU PPI (10:00),US Personal Income & PCE (13:30), US Pending Home Sales (15:00), US ABC Consumer Confid.(22:00).

**Wed:** UK N'wide Cons Confid(00:01), Ger & EU PMI Serv(09:00), UK Ind.Prod(09:30) UK Manuf.Prod(09:30),EU Retail Sales(10:00),US MBA M'gage Apps(12:00), US ADP Employment(13:15), US Factory Orders(15:00).

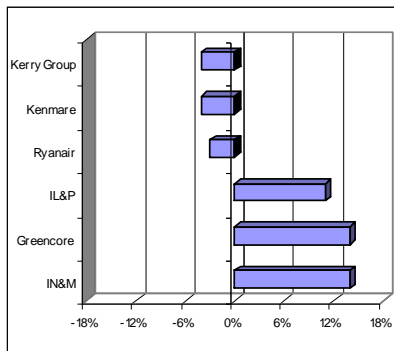
**Thurs:** Ger Factory Orders(11:00),BoE Rate Announcement(12:00), ECB Rate Announcement(12:45), US Jobless Claims(13:30).

**Fri:** Ger Trade Bal, Current Account&Imports(07:00),Ger Ind Prod(11:00), US Non Farm Payrolls(13:30), US Consumer Credit (20:00).

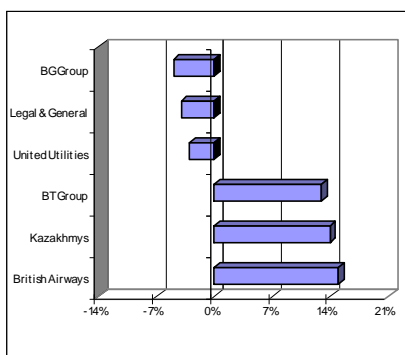
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
24/07/09– 31/07/09

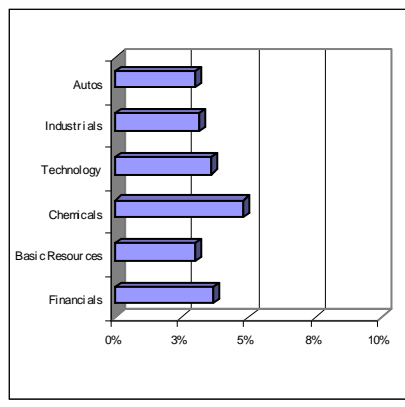
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE

Company	YTD	Relevant news
Aryzta	6.1%	Recently reiterated earnings guidance.
BP	-3.8%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	8.3%	Current trading below expectations; cost cutting ahead of forecasts
DCC	48.6%	We remain positive on the group after meeting with management
E.ON	-4.9%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	19.5%	Formed joined venture with Alcatel Lucent
IL&P	116%	Speculation surrounding restructuring of the group persist.
IN&M	-39%	Confirms extension to standstill agreement with bondholders
J&J	2.1%	Reports earnings in line with expectations
JPMorgan	25%	Posts Q2 results well ahead of market forecasts.
Microsoft	23%	Disappointing Q2 revenue
Vodafone	-10%	Issues reassuring trading update

## What it says in the 'Sundays'

Company	Paper	Headline
IN&M	S. Times	AIB -most exposed and depended on NAMA
William Hill	S. Times	Bookie to bet on tax haven
Irish Financials	S. Tribune	Back to Business after NAMA
China	S. Tribune	Morgan Stanley-China bubble to come under pressure

## Corporate Visits

### COMPANY

### PRESENTATION DATE

Irish Life & Permanent

3rd September



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2791	-0.4%	19.1%	2.8	14.6
FTSE	4608	0.7%	3.9%	4.5	53.1
DAX	5332	2.0%	10.9%	3.9	39.7
OW	9172	0.9%	4.5%	3.1	13.3
500	987	0.9%	9.4%	2.7	17.4
NAS	1979	0.6%	25.5%	0.9	33.6
EUROSTOXX	2291	1.9%	10.0%	4.3	18.2
NIKKEI	10357	4.1%	16.9%	1.8	

Sector	Weekly move%	YTD move %
Basic Resources	2.1	57.4
Banks	3.7	36.4
Retail	1.7	25.2
Autos	2.5	24.4
Financial Services	0.5	21.7
Personal & Household Goods	3.4	18.5
Industrials	3.2	17.6
Chemicals	4.8	16.5
Construction & Materials	2.8	14.9
Technology	3.6	14.6
Food&Bev	2.8	11.2
Oil & Gas	-2.2	9.0
Media	2.3	1.5
Healthcare	2.0	1.4
Telecom	3.7	0.8
Insurance	2.8	0.5
Travel & Leisure	1.1	-1.0
Utilities	2.2	-9.0

## Commodities

	Current	Change YTD
crude	69.45	55.7%
gold	954.00	8.5%

## Exchange Rates

	Current	YTD Change	Year End (est)
eur usd	1.426	-2.3%	1.40
eur gbp	0.853	-10.8%	0.93
eurjpy	134.98	5.9%	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%	0.88%	1.00%
UK	0.50%	0.88%	0.50%
US	0.00% - 0.25%	0.47%	0.0% - 0.25%



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Dolmen Stockbrokers, 75 St. Stephen's Green, Dublin 2, Ireland.



## DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.  
45 South Mall, Cork, Ireland  
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300  
Tel : +353 21 422 2122  
Tel : +353 61 436 500

E-mail: info@dsl.ie  
E-mail: cork@dsl.ie  
E-mail: Limerick@dsl.ie