



Equity markets were strong last week as investors took heart from a mixture of events that extended the rally that began in early March. These included positive economic data out of the US, in particular a stronger than expected reading in Factory Orders, another reasonable housing number in the shape of Pending Home Sales which followed steadier Existing and New Home Sales readings in the prior week and a pick up in new orders in the ISM Manufacturing survey. Also adding legs to the rally was the ruling on 'mark to market' accounting from the Financial Accounting Standards Board in the US which provides banks with the ability to value assets at what the banks deem to be fair value rather than the current 'distressed' market value, a move that 'technically' boosts their balance sheets. The G20 did their bit for market confidence with the announcement of a \$1 trillion package which included a \$500bn top-up for the IMF and \$250bn international trade package. The one disappointment from this collective gathering of world leaders was that there was no official plan on resolving the banking crisis, other than a general acknowledgement that the situation was serious and that action was needed. The question for markets however is how will this situation be resolved and will the Public Private Investment Programme announced last week be hamstrung by the mark to market ruling. In a holiday shortened week all eyes will turn to the start of the Q1 reporting season with Alcoa kicking it off on Tuesday. With markets looking happier with the economic newsflow, the real test now lies ahead with the upcoming earnings season. Closer to home Tuesdays Budget will dominate and from a market perspective, any news on the rumoured 'Asset Management Company' for the Irish banks bad loans will be eagerly awaited.

## TRADING IDEAS, EARNINGS & PREVIEWS

The mini-budget will be presented by the government on Tuesday evening; which in reality will be anything but a mini-budget. Uncertainty relates to how much taxes will be increased by, with the increases being passed through by raising the current levies and potentially lifting the cap on PRSI payments. Spending across all departments will be cut and the number of junior minister positions will also be cut. Therefore, the Minister for Finance will not disappoint in presenting a "Hairshirt" budget on Tuesday, but we are also expecting details of bad bank or Asset Management Company (AMCO) to be released at the same time. Details of this plan have been leaked in the papers over the last number of weeks. The leaked details of AMCO indicate it will purchase certain assets from Irish domestic banks in an effort to clean up their balance sheets. These assets will include commercial and residential development loans and potentially other loans could be included such as loans backing commercial investment properties and other corporate loans. It is unclear if the assets will be only the loans or if AMCO will take over the assets that act as security to the loans. Instead of paying cash for these assets from the banks, AMCO will pay by issuing bonds to the bank that will be guaranteed by the Irish government. These bonds could in theory be used for ECB Repo operations (used as collateral to obtain loans from the ECB). With the ECB due to announce longer dated repo operations than the current 6-months in May, these bonds will help Irish banks to obtain longer dated funding than they currently can from the markets. A key issue for Irish banks is the price AMCO will pay for the assets it will purchase. If the price agreed is roughly where the banks have already written down the loans, the transfer to AMCO will increase the capital base of the banks by reducing their Risk Weighted Assets (RWA). By decreasing RWA, the capital base and in particular, core tier 1 of the bank will increase allowing the bank to undertake new lending and restore investor confidence in their shares. Of the three listed banks, the main beneficiaries of AMCO will be AIB and BOI with both holding €20.8bn and €13bn of commercial and residential development loans respectively. By removing these assets and potentially other problem assets plus the capital injection of €3.5bn into each, could make the Irish banks investable again as clarity on earnings return.

Aviva has rallied 58% since the share price fell in early March after their full year results, with a 13% rise since the start of last week. The issues facing the company have not changed, it still has significant exposure to property with shareholders exposed to £27.1bn of property loans. The refusal of the company to reduce its dividend has put capital generation under pressure. The total year dividend is £0.9bn which is almost the same as the capital generation ability of the company insurance book. With the IGD capital surplus at circa £1.2bn after dividend is taken out, the lack of capital generation is a worry for the company. Aviva has a solvency ratio of 1.12x which is the lowest of the UK insurers. Its peer Prudential has a solvency ratio of 1.62x, but this will be increased further by the transfer of a life book in Taiwan to 2.4x. An alternative for Aviva to increase its capital through financial re-insurance, but the negative outlook on Aviva's credit rating of A1 and the high level of debt within the company compared to tangible equity could make it difficult to enter such agreements. From a technical view, the recent rally has resulted in price bouncing back to £2.56 resistance level, and provided this level holds early this week we will be looking to initiate more shorts targeting £2.16 trend support initially. As with all shorts, we recommend using stop losses and in the case of AV/ at a level of £2.63.

### Aviva

Price: £2.53  
P/E: 3.7x  
Div: 13.7%  
Target: £1.90

### Sell

### CRH

Price: €17.00  
P/E: 11.5x  
Div: 3.94%  
Target: €19.00

### Buy

**Fundamental View:** Shares in CRH remained strong last week. While we continue to like CRH as a long-term recovery play within the construction sector we believe that shares in the group have moved on too far in the short-term. Economic data in the US improved over the last month however we would caution that the figures were coming off a very low base. CRH remains our preferred play in the sector and the group's recent €1.24bn capital raising through a rights issue further enhances its balance sheet and will give the company room to acquire assets from some of its highly leveraged peers that need to reduce debt.

**Next catalyst:** CRH's AGM will take place on May 6th.

### Thomson Reuters

Price: £17.06  
P/E: 15x  
Div: 4.0%  
Target: £10.00

### Sell

**Fundamental View:** Shares in Thomson Reuters were strong last week rising by 9% on the back of strong equity markets which we suspect resulted in a lot of short covering. Despite the rally our view remains that Thomson Reuters is overvalued at current levels trading at c. 15x forward earnings. This is despite the group generating c. 60% of its revenue from its markets division which is highly exposed to the financial sector. With investment banks shedding significant amounts of jobs we believe that demand for Reuters equipment and data will slow significantly. The group's largest shareholders, the Woodbridge Group, has now completed its share swap between the Canadian line and UK line. As a result we believe the technical event that partly drove the strength in the group's share price will now have subsided.

**Next catalyst:** Thomson Reuters is due to report first quarter results on May 7th

### Miner Sector Update

**BHP Billiton:** Strongest in sector, from both balance sheet and diversity of operations. BHP's larger shareholders have reportedly given the company the green light to pursue acquisitions. Additionally the company has raised over \$6bn in from bond issues in recent weeks, further fueling takeover speculation. BHP has numerous potential targets at attractive prices. However recent comments by senior management of BHP, stating that developing new mines may be cheaper than acquisitions within 6 months, may point to an alternative growth strategy.

**Technical View:** Price is testing key resistance at 1531. We expect this level to hold for the short term and for the stock to retrace back to 1350 support zone before pushing higher. Go long on a pull back to this support zone targeting a break above 1531 to next resistance at 1745.

**Kazakhmys:** Kaz traded up over 20% last week on continued strength in copper prices. Tuesdays release of the 2008 financial results were also well received. Restocking from China has been the main reason for copper's increase from a low of \$1.25/lb to current levels of \$1.94/lb. Given the weakness in developed economies, the likelihood of a pullback in copper prices in the coming weeks remains.

The Kazakhstan based copper miner, Kazakhmys has made significant gains on recent surge in copper prices. Copper prices are being driven by re-stocking of Chinese inventories, as opposed to an economic rebound, and as such are likely to be relatively short term in nature.

**Technical View:** Price continue to create higher highs and higher lows. The current rally has resulted in the stock breaking above the critical 400 area. Both 20 & 40 day MAs are now steadily trending higher and a triple crossover now looks inevitable. We look for a pull back to 410/400 area in order to buy into weakness. Next resistance lies at 613.

## Earnings Week Ahead

**Mon:** Telecom Italia (S/holders).  
**Tues:** Aerlingus (Traffic), ALCOA(Q1), Easyjet(Traffic), Michael Page(Trade), Finnair (Traffic), Air Berlin(Traffic), SAS (Traffic), ThirdForce (prelim)  
**Wed:** Family Dollar (Q2), Fortis (EGM), Daimler(AGM), PZ Cussons(Trade), TNT (AGM), Julius Baer (S/holders).  
**Thurs:** Chevron (Q2), Vedanta Resources(Final), Halfords(Trade), Hays(Trade),  
**Fri:**

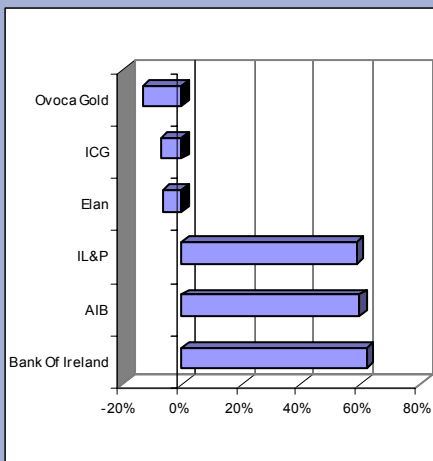
## Economic Week Ahead

**Mon:** EU Retail Sales& PPI (10:00).  
**Tues:** BoJ Target Rate (05:00), UK Industrial& Manuf. Prod (09:30), EU GDP(10:00) US Consumer Credit (20:00), US ABC Consumer Confid(22:00).  
**Wed:** Ger Trade Bal, Imports & Exports(07:00), Ger Factory Orders(11:00), US MBA Mgage Apps(12:00), US Wholesale Inventories (15:00). Fed Minutes (19:00)  
**Thurs:** Ger CPI (07:00), ECB Mthly Report(09:00), UK PPI Input&Output(09:30), Ger Ind.Prod (11:00), BoE Rate Announcement(12:00), US Trade Bal, Import Price Index & Jobless Claims (13:30).

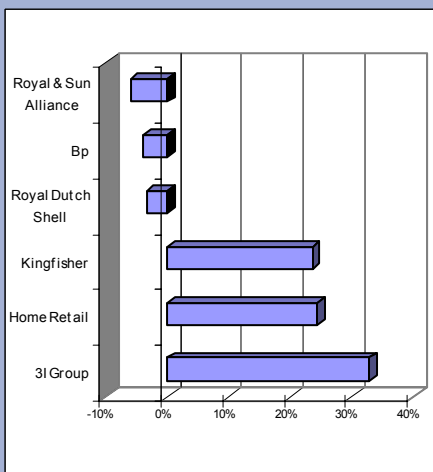
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
30/03/09-03/04/09

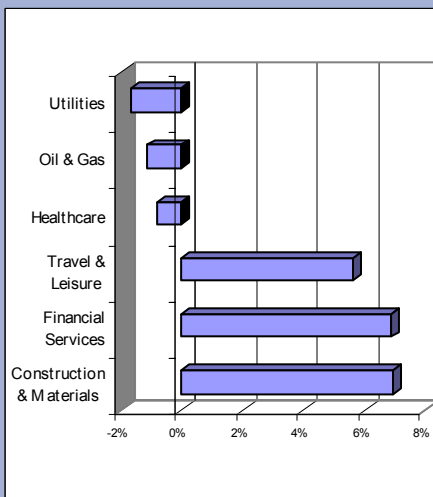
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE



Company	YTD	Relevant news
Aryzta	-19.6%	Goldman Sachs raises Aryzta to Buy from Neutral.
BP	-13.0%	BP indicate it will continue to invest in future production and pay dividends despite falling oil price.
CRH	-5.2%	US data shows some improvement
E.ON	-24.8%	E.On says it is looking to buy back €4.25bn of bonds to make more efficient use of cash.
Hewlett-Packard	-4.1%	HP reports first quarter net income slightly below expectations.
IL&P	10.8%	Ahead of 'bad bank' details expected in the Budget on Tuesday.
IN&M	-60.7%	IN&M appoints advisers in respect to the proposed engagement with holders of the outstanding bond.
J&J	-12.7%	Johnson & Johnson reports fourth quarter earnings of \$2.71bn, compared with \$2.37bn a year earlier.
JPMorgan	-11.7%	Merrill Lynch raises its recommendation to Buy with price target of \$40.
Microsoft	-3.3%	Microsoft discloses its plans for marketing its next generation windows operating system.
Vodafone	-10.0%	Morgan Stanley raise Vodafone to Overweight with Price Target of 175p.

## What it says in the 'Sundays'

Company	Paper	Headline
Irish Financials	S.Times	Banks float solution to toxic assets
Aer Lingus	S.Tribune	Aer Lingus-JetBlue link-up exceeds forecasts by 50%
Irish Economy	S.Bus Post	Major tax hikes on the way for middle and higher earners
Irish Financials	S.Tribune	EBS, IL&P cry foul on link-up with Nationwide
Aer Lingus	S.Bus Post	Aer Lingus to begin immediate search for Mannion's successor

## Corporate Visits

### COMPANY

### PRESENTATION DATE

Paddy Power

10th June



## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2330	7.5%	-0.5%	5.4%	7.0
FTSE 100	4030	3.4%	-9.1%	5.1%	18.7
DAX	4385	4.3%	-8.8%	5.7%	17.3
Dow Jones	8018	3.1%	-8.6%	3.9%	14.9
S&P 500	843	3.2%	-6.7%	3.4%	12.4
Nasdaq	1622	5.0%	-2.8%	1.2%	22.3
EuroStoxx 50	1896	4.0%	-9.0%	6.2%	14.1
Nikkei 225	8750	1.4%	-1.2%	2.1%	27.8

Sector	Weekly move%	YTD move %
Construction & Materials	10.68	-3.62
Financial Services	10.66	-2.12
Travel & Leisure	10.24	-4.16
Autos	9.73	0.49
Banks	9.37	-6.73
Retail	8.44	7.18
Basic Resources	8.40	16.83
Industrials	7.86	-2.41
Insurance	7.73	-18.33
Technology	6.54	1.63
Personal & Household Goods	5.91	-3.53
Media	5.73	-3.23
Telecom	3.42	-7.93
Food&Bev	3.38	-8.11
Chemicals	3.31	-3.81
Healthcare	1.18	-12.13
Oil & Gas	0.23	-1.70
Utilities	-1.49	-19.31

## Commodities

	Current	Change YTD
Crude Oil	\$52.51	17.7%
Gold spot	\$893.15	1.6%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.348	4.96%	1.40
EUR-GBP	0.909	5.81%	0.93
EUR-JPY	135.26	2.79%	120

## GDP Growth

	2008	2009 (est)
Ireland	-1.70%	-5.00%
Euro Zone	1.20%	-2.00%
UK	1.00%	-2.00%

## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	1.25%	1.47%	1.00%
UK	0.50%	1.59%	0.50%
US	0.00% - 0.25%	1.16%	0.0% - 0.25%



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