

Traders Update

MONDAY 2ND JULY 2007



Brief Market Comment

Equity markets received a timely boost on the final day of trading for the first half of 2007 after another difficult week as the Federal Reserve's preferred inflation measure, core PCE, fell to 1.9% and is now within its targeted range. Investors had been left nervous on Thursday after the Fed commented following its decision to leave interest rates on hold at 5.25% that inflation remained its predominant concern. US markets have outperformed their European peers over first half of 2007 with the Dow Jones gaining 8%, compared to a 7% rise for the EuroStoxx 50, a 6% rise for the FTSE, while the Irish market has put in a disappointing performance losing 1%. Next week will be another busy week for economic releases with the Bank of England expected to raise rates by 25 basis points to 5.75% and the ECB expected to leave rates on hold at 4% on Thursday. There will only be four trading days in the US next week with markets closed for the 4th of July holiday, while the focus will be on the key Nonfarm payrolls number due on Friday.

Current Trading Ideas

C&C

Current: €9.98
Target: €13.50
P/E 07 15.64
Div Yield 07 3.24%
Next Event 13/7/07

Even though there has been an increase in competition in the UK cider market this year, our view is that **C&C's** Magners should continue to out-sell the competition, and that the impact from the UK smoking ban should be minor, as it was in Ireland. Sentiment towards the shares is likely to improve as more normal summer weather returns over the course of July and August. The next set of AC Nielsen on-trade data for the UK LAD market, due to be released c.17th July, should provide some reassurance that yoy market share growth is continuing to be generated. Similar to the UK Budget announcement earlier this year, there is now an expectation that this data will be significantly weaker than consensus expectations, so any year on year progress could act as a positive catalyst for the share price. The company's share buy-back programme has now started, and with only c.€19.5m spent so far buying back 1.8m shares at an average price of €10.83, it should limit further downside for the share price between now and the group's H1 trading statement on 31/08/07.

BUY

Taylor Woodrow

Current: £3.61
Target: £5.00
P/E 07 9.05
Div Yield 07 4.36%
Next Event 3/7/07

Tomorrow, 3rd July, George Wimpey shares will de-list and shares in Taylor Wimpey will start trading, giving effect to the nil premium merger between **Taylor Woodrow** (TW) and George Wimpey (GW). The proposed merger will result in TW shareholders owning 51% of the combined entity, and GW shareholders owning the remaining 49%. Substantial synergies of c.£100m per annum will be generated from combining TW's land bank with GW's build cost efficiency. Such synergies would result in a theoretical eps enhancement for TW of 12% in 2008 from 41p to 46p, and an eps enhancement of 22% in 2009 from 45p to 55p. This provides the basis for our 12 month price target for TW of £5, which is based on 9x 2009 eps of 55p. Given TW's superior landbank potential, there is a high probability of either Persimmon making a competing bid for TW or else waiting for the combined Taylor Wimpey group to be formed and then bidding for the combined group.

BUY

Aviva

Current: £7.44
Target: £9.00
P/E 07 8.45
Div Yield 07 4.39%
Next Event 13/07/07

On Friday week, 13th July, **Aviva** will release a trading statement for the 6 months ending 30/06/07. The statement is likely to confirm that the group is on target to generate 15% overall sales growth for 2007, driven by particularly strong international sales growth. In April, Aviva announced total life and pension sales of £7.75 bn for the 3 months ended 31/03/07, a year on year increase of 16%. This Q1 sales growth was driven by 25% growth from the international business, which now accounts for more than 50% of group sales following last August's \$2.9 bn cash acquisition of US life insurer, AmerUs Group. Given that Aviva's 2007 return on embedded value of 14% is forecast to be c.10% stronger than the UK sector average, its price to embedded value (EV) should trade at a similar premium. Our current 12 month price target of £9 would rate the shares at 1.6x 2006 EV per share of £5.73, a premium of c.10% to the current sector average.

BUY

British Land

Current: £13.40
Target: £17.50
NAV 07 16.82
Div Yield 07 1.68%
Next Event 13/7/07

Despite the equity market weakness of the past week, the share price of **British Land** (BL) held the £13.30 level. Early last month, the share price bounced by 6% off this level over the 6 trading days between 7th June and 15th June, despite a similar UK interest rate outlook as is the case currently. With the UK property group releasing its AGM statement on Friday fortnight, 13th July, there is a high probability of similar share price upside over the coming weeks. This is because the AGM statement should provide some important reassurance that the UK office property market remains buoyant currently, and that the UK retail property market also remains solid. Evidence of this should be contained in the group's NAV per share as at 30/06/07, when it is reported on 14th August, which is likely to show further growth on the £16.82 reported as at 31/03/07. With shares now trading at a 21% discount to this historic NAV, there is limited further downside risk.

Buy

AIB

Current: €20.21
Target: €24.50
P/E 07 9.96
Div Yield 07 3.91%
Next Event 1/8/07

Following the 10% fall in the **AIB** share price since the start of June, when the value of its 51.1m shares in Polish bank, BZWBK, and the value of its 26.7m shares in US bank, M&T, are taken into account, the group's core Irish, UK and Capital Markets businesses are now trading at c.8x 2007 earnings and at a price / book ratio of 1.8x. For a bank likely to generate double digit earnings growth in 2007 and 2008, and generating a return on equity in excess of 20%, such valuations indicate that the share price has limited further downside risk. The bank's recent H1 2007 trading statement confirmed that AIB remains on target to achieve low double digit earnings growth for 2007, driven by 20% loan growth, low bad debts representing only 0.15% of average loans, and income growth at least 3% stronger than cost growth in each of the operating divisions and for the group overall. Evidence of this continued strong earnings growth should be contained in the bank's H1 2007 results' announcement on Wednesday 1st August.

Buy

Tesco

Current: £4.19
Target: £5.00
P/E 07 16.76
Div Yield 07 2.57%
Next Event 3/9/07

On the 19th June Tesco announced its Q1 trading statement, which was at the lower end of market expectations. Since then the share price has fallen c.8%. This was due to the lower than expected growth in the UK where like for like sales for the quarter were up 4.7%, driven by higher market prices for commodities and seasonal fresh foods. However, international sales were up 24%, driven by a particular strong performance in Asia, where sales grew 32%. With Tesco about open its first stores in the US and recent data showing that it increased its market share of the UK retail sector from 31.4% to 31.6% for the 12 weeks ended 17/6/07 we feel that the recent sell off is over done. Therefore we are maintaining our current price target of £5.00 based on 20x current year eps of 25p.

Buy

EARNINGS: MON (CRH, Trading Statement), WED (British Airways, Traffic Figures), THUR (Augean, Interim Results), FRI (Aer Lingus, AGM), (EasyJet, Traffic Figures), (Bovis Homes, Interim Results)

ECONOMIC DATA: Monday (US ISM Manufacturing), Tuesday (Euro-Zone PPI, Unemployment, US Pending Home Sales, Factory Orders) Wednesday (Euro-Zone Retail Sales), Thursday (Bank of England Interest Rate Decision, ECB Interest Rate Decision), US ADP Employment, Jobless Claims, ISM Non-Manufacturing), Friday (UK Industrial Production, US Nonfarm Payrolls)

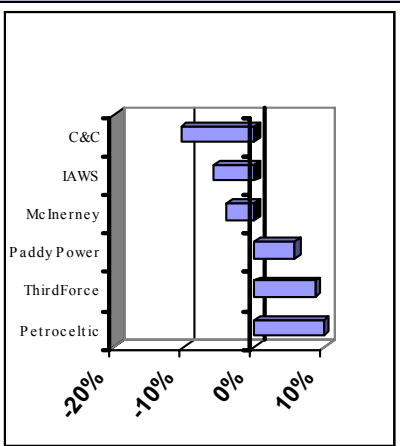
This Week's Calendar Events

DOLMEN STOCKBROKERS Traders Update

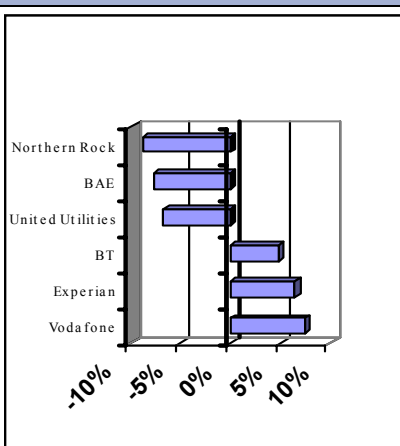
Last Weeks Best/ Worst Performers

22/06/07-29/06/07

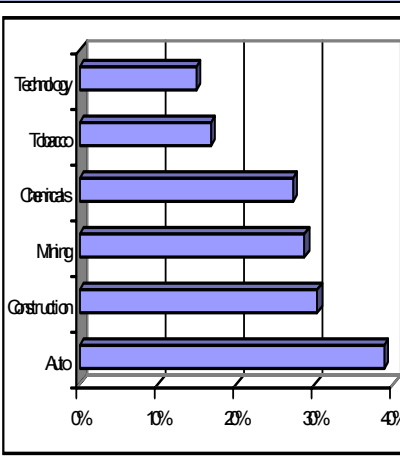
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	20.21	-3.53%	-12.18%	On continuing concerns over the Irish housing market where house prices fell for third month in a row
Aviva	7.44	-1.98%	-9.01%	Sold €116m stake in Popolare Banca Popolare Italiana
BP	6.03	3.25%	7.56%	As oil trades above \$70 per barrel
B. Land	13.40	0.98%	-21.54%	Pressured on concerns of rising interest rates in the UK
C&C	9.98	-10.49%	-10.00%	On concerns that growth in sales of cider may weaken this summer
CRH	36.63	-0.08%	17.63%	Announced first half profit jumped by 25% and that CEO Liam O'Mahony is to retire in 2008
GNC	5.60	5.66%	22.49%	On continuing takeover speculation
GSK	13.05	0.54%	-2.55%	GSK's Promacta drug won backing of European Medicines Agency Panel for treatment of rare blood disorder
Lad	4.33	-0.23%	7.86%	Peer William Hill said that trading was in line with expectations
RBS	6.33	-0.31%	-3.57%	Barclays won regulatory authority approval to delay submitting formal offer documents for ABN until July 23rd
Ryanair	4.96	0.81%	-6.85%	EU vetoed Ryanair's €1.48bn bid for Aer Lingus
Vodafone	1.68	7.69%	20.27%	On speculation that Vodafone may win exclusive iPhone deal from Apple
DD Unrealised gain YTD		0.86%	ISEQ YTD	-2.43%
DD Realised gain YTD		2.53%	FTSE YTD	4.58%
DD Total YTD		3.40%	Average performance	1.08%
Relative performance YTD		2.32%		

* DD Return (Includes dividends & FX changes since stocks inclusion)

What it says in the 'Sundays'

- "Aer Lingus held face-to-face meeting with Ryanair" **Ryanair - Sunday Business Post**
- "Rumours fly that Diageo may be set to shelve Guinness" **Diageo - Sunday Business Post**
- "Ryanair to raise €1bn in plane sale" **Ryanair - Sunday Times**
- "Strike ballot due at Magners plant" **C&C - Sunday Times**
- "Turbulence is always a factor" **Aer Lingus - Sunday Times**
- "FBD's road is running out" **FBD - Sunday Times**
- "Kingspan to dear" **Kingspan - Sunday Independent**
- "AGM rejects proposals" **Tesco - Sunday Tribune**
- "To enter Irish wind energy market" **Babcock & Brown- Sunday Tribune**

Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Bank of Ireland	-14.00%	22/06/07	CFO J O'Donovan re-iterated that the only 10% of the groups PBT comes from Irish mortgages and he expects loan book growth of 15% for next year
Glanbia	21.62%	18/06/2007	Deputy Group Managing Director Geoff Meagher re-iterated recent guidance of double digit eps growth for 2007.
Persimmon	-24.00%	06/06/2007	Finance Director Mike Killoran told us that the company will continue to grow organically, however if it would be in a position to make further acquisitions as a result of its strong balance sheet.

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	9306	-0.95%	-1.08%	1.98%	14.69
FTSE 100	6608	0.62%	6.22%	3.60%	13.81
DAX INDEX	8007	0.73%	21.38%	2.45%	14.52
DJ INDUS. AVG	13421	0.58%	7.82%	2.11%	17.92
S&P 500	1505	0.32%	6.28%	1.78%	17.76
NASDAQ	2609	0.88%	8.14%	0.65%	39.54
DJ STOXX 50	3947	0.62%	6.76%	3.39%	13.75

Sector

	WEEKLY MOVE %	YTD MOVE %
Automobiles & Parts	2.10	38.78
Construction & Materials	1.72	30.34
Mining	-0.72	28.69
Chemicals	1.03	27.13
Tobacco	4.33	16.80
Technology Hardware & Equipment	-0.05	14.83
Oil & Gas Producers	2.34	11.80
Personal Goods	1.11	11.34
Media	0.70	10.83
Leisure Goods	0.48	10.47
Beverages	-0.11	8.55
Food Producers	-0.07	5.82
Telecommunications	1.59	5.67
Gas, Water & Multiutilities	-0.05	2.33
Pharmaceuticals & Biotechnology	2.26	-0.51
Insurance	-0.55	-0.69
Banks	-1.83	-1.39
General Retailers	-1.43	-2.20
General Industrials	0.55	-5.09
Software & Computer Services	-0.10	-9.45

Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$70.30	7.45%
Gold Spot	\$649.70	2.22%

Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.353	2.50%	1.35
EUR-GBP	0.674	0.14%	0.665
EUR-JPY	166.76	5.82%	145.00

GDP Growth

	YEAR END 06	YEAR END07(E)
Ireland	7.70%	5.00%
Euro Zone	2.70%	2.50%
UK	2.90%	3.00%
US	3.00%	2.00%

Central Bank Interest Rates

	CURRENT	YEAR END(E)
Euro Zone	4.00%	4.25%
UK	5.50%	6.00%
US	5.25%	5.25%

Credit Market Summary

Spreads widened significantly again this week, only stabilising at current levels on Thursday – 8% widening in the investment grade index from 23bps to 25bps; and 5% widening in the high yield index from 213bps to 225bps over the week. The market is seeing a re-pricing of risk at present with a number of high yield bond issues stumbling at the finish line as investors seek a combination of reduced terms, higher coupons and higher rated issues. It is difficult to see how spreads could tighten back to sub-200bps levels

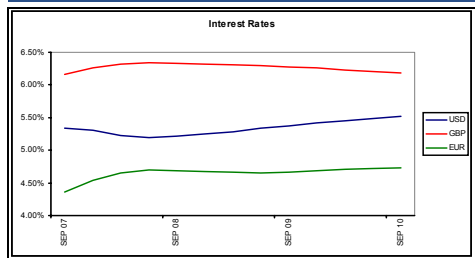
Credit Sector Movements for week ended 29/06/07

Building materials: Ernst & Young report identified both La Farge and Saint Gobain as vulnerable to takeover on the basis of their high free float percentages – the names widened 5bps and 4bps respectively. CRH widened 2bps after the company was identified as a takeover target by Merrill Lynch on the basis of its attractive assets and its 100% free-floating share base.

Chemicals: ICI was only marginally wider, while its suitor Akzo was unchanged as the market awaits Akzo shareholder approval for a possible higher bid. Elsewhere each Bayer, BASF and Linde were wider, 4bps; 1bps and 5bps after speculation hit the market Friday of possible consolidation in the German chemical market – particularly with respect to Linde and BASF.

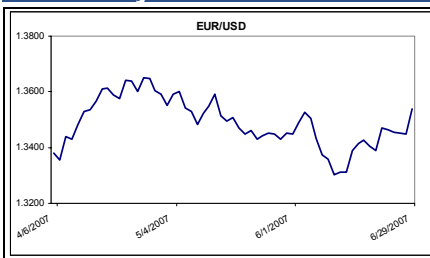
Retail: Sainsbury's widened 10bps on the long running story of the private equity buyer – Sainsbury spreads have widened 100% in the past month from 40bps to 80bps. Elsewhere concerns about UK consumer spending caused most UK retailers to widen; biggest mover was Tesco +3bps (27%); Morrisons +4bps (8%); MKS +1bps (3%); Dixons +5bps (8%).

Interest Rate Outlook

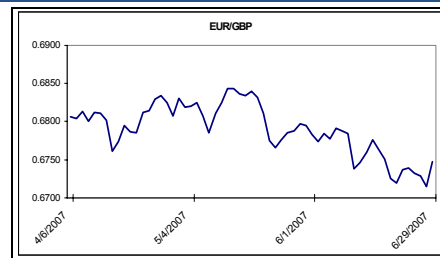


The ten-year US Treasury yield fell to 5.03% on signs that inflationary pressures in the US may be starting to retreat. Yields on German bunds also fell last week, however they may rebound this week if the ECB signals further rate rises.

Currency Comment



The USD lost ground against the Euro last week as the US Core PCE inflation number for May fell to 1.9% and is now within the Fed's targeted range. All focus will be on the ECB's interest rate decision on Thursday where it is expected to keep rates on hold at 4%, while the main interest will be on Trichet's comments at the post meeting conference.



The Euro was stuck in a range against GBP last week ahead of interest rate decisions out of both Bank of England and ECB on Thursday. Expect GBP to strengthen as the Bank of England is expected to raise rates by 25bps to 5.75%.



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