



# DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

**02.10.2006**



**DOLMEN SECURITIES** Website : [www.dolmensecurities.com](http://www.dolmensecurities.com)

Dolmen House, 4 Earlsfort Terrace, Dublin 2, Ireland.

45 South Mall, Cork, Ireland.

Crescent House, Hartstonge Street, Limerick, Ireland

Tel: +353 1 633 3800

Tel: +353 21 422 2122

Tel: +353 61 405713

Fax: +353 1 677 7044

Fax: +353 21 422 2123

Fax: +353 61 405711

Email: [info@dsl.ie](mailto:info@dsl.ie) <<mailto:info@dsl.ie>>

Email: [cork@dsl.ie](mailto:cork@dsl.ie) <<mailto:cork@dsl.ie>>

**Please see Analyst Certification and required disclosures set out at the end of this report.**

Dolmen Securities is a Member Firm of the London Stock Exchange, and is authorised by the Financial Regulator under the Investment Intermediaries Act 1995. Dolmen Stockbrokers is a Member Firm of The Irish Stock Exchange, The London Stock Exchange, and is authorised by the Financial Regulator under the Stock Exchange Act 1995. Dolmen Stockbrokers is regulated by the Financial Regulator as a Mortgage Intermediary.

Section

# 1 Market View

Equity markets put in strong performances across the board last week as investors focused on the more cyclical sectors, particularly oil and basic resources. This switch to the higher growth sectors helped the Dow and the S&P 500 hit new year highs, while European bourses look well positioned to test their May highs. This week is a big one on the interest rate front with both the Bank of England and the ECB meeting on Thursday, while on Friday there is the release of the US September Non-Farm Payroll data. This figure will be important as it should give some indication of the underlying strength of the labour market as concerns about an overall slowdown in the US economy continue to linger.

## Below are our current trading ideas

Trading ideas	
<b>BP</b> <b>Last rec @ 567p</b> <b>Current: 582p</b> <b>Target: 650p</b> <b>Stop-loss: n/a</b>	<p>BP will release its Q3 Trading Statement on Wednesday. BP is expected to tell shareholders this week that oil production fell in the three months ending yesterday, partly because its Prudhoe Bay field in Alaska was closed as a result of corroded pipes. We expect the company to announce that it bought back just under \$4bn worth of its own shares over the quarter.</p> <p>While the recent newsflow from the company has been negative, the impact on the core earnings for the company has been minimal thus far, with no material downgrades on current year earnings. Production at the Prudhoe Bay pipeline has restarted sooner than originally anticipated. The company has recently recommenced its share buy-back which will be up to \$50bn over the next three years and this should lend support for the shares. The stock trades on 9.7x 2006 earnings and 9.6x 2007 earnings and yields 3.70%.BUY</p>
<b>Petroceltic</b> <b>Last rec @ 19p</b> <b>Current: 14.5p</b> <b>Target: 35p</b> <b>Stop-loss: n/a</b>	<p>On Friday Petroceltic reported interim results and updated the market on its drilling progress in Algeria. Despite no update on flow rates from the zone, the company has added some clarity to the status of its ISAS-1 drilling operations and this should help to ease some concerns over its drilling progress in Algeria.</p> <p>The recent share price decline would appear to be overdone as in a 'worst case scenario' we value the company at 15p per share. The company's Isarene Block in Algeria currently has proven reserves of 380 bcf and 28mmbbls. Using the 6 : 1 ratio to convert bcf of gas into mmbbls and Petroceltic's 75% working interest, this translates into a current proven reserve of 68mmbbls. Using the value of \$1.43 per bbl paid by Dana Petroleum last year for a 15% interest in Gaz de France's (GDF) Algerian blocks, gives a worst case value of \$97m, or 7p per share, for these Algerian reserves. When the company's Italian assets, which have been valued at 4p per share, and its 4p per share cash position, are also included, this gives a worst case value per share of 15p.  <b>Speculative Buy</b></p>
<b>Grafton</b> <b>Last rec @ €10.50</b> <b>Current: €10.57</b> <b>Target: €11.50</b> <b>Stop-loss: €10.10</b>	<p>Despite recently reporting a strong set of interim results shares in Grafton have been flat. On September 13 Grafton reported a set of better than expected results, with PBT and EPS increasing by 11% and 9%, primarily driven by continued growth in the group's Irish merchanting chains, Chadwicks and Heiton Buckley. Some of Grafton's peers, the UK homebuilders and the UK mortgage banks, have all recently confirmed that the UK housing market has started to recover. Also, last week Wolsley reported a solid set results which had a positive read through for Grafton's Irish and UK operations. As this recovery gains momentum in H2 2006, there is further upside for the share price as comparatives with H2 2005 will be easier. Our current 12 month price target of €11.50 (10% further upside) is based on 15x 2006 eps of 77c. The shares also pay a dividend yield of c.2%. BUY</p>
<b>Anglo</b> <b>Last rec @ €12.50</b> <b>Current: €13.01</b> <b>Target: €13.50</b> <b>Stop-loss: €12.30</b>	<p>The performance of shares in Anglo Irish Bank has lagged behind the strong performances from other Irish financial stocks, despite releasing an upbeat trading statement at the beginning of September. The bank said that work-in-progress levels continue to be "strong", and asset quality remains "robust", but does not give any guidance range on quantifying these areas, which will lead people to think that this year is excellent, but next year may see a slight slowdown. Full year eps will be "above 3 cent" (&gt;3.4%) better than current consensus eps for year ending 30/09/06 of 87c. The continued strong growth would appear to have been driven by continued lending activity which "remains buoyant". We were already expecting a slight slowdown next year, and so our current price target of € 13.50 is based on 13x forward eps of € 1.04. Anglo will report FY results on December 6th .BUY</p>
<b>CRH</b> <b>Last rec @ €26.17</b> <b>Current: €26.54</b> <b>Target: €30</b> <b>Stop-loss: €24.30</b>	<p>At the end of August CRH announced strong results for the 6 months ended 30/06/06. In line with peer results of recent weeks, CRH's results showed that higher energy prices are continuing to be successfully passed on in the form of higher cement prices and that the group's European Materials business, European Products business and European Distribution business are all recovering strongly on their 2005 performances.</p> <p>CRH issued a positive outlook for H2 2006, with its European markets continuing to recover, and its infrastructure and non-residential construction markets in the US remaining strong. Even though the slowdown in the US housing market is having an impact on the Americas products division, the Americas distribution division, which has a 65% exposure to the US residential RMI market is continuing to experience strong growth. Evidence of the strength of this outlook was the 20% increase in the H1 dividend to 13.5c. Our 12 month price target of €30 (13% further upside), which is based on 13x consensus 2007 eps of €2.35. BUY</p>
<b>GSK</b> <b>Last rec @ 1,479p</b> <b>Current: 1,436p</b> <b>Target: 1,650p</b> <b>Stop-loss: 1,418p</b>	<p>Shares in GSK have struggled recently despite generally positive newsflow. On Friday GSK said it is to invest more than €500m at its production plant in France to expand vaccine manufacturing capacity. GSK says the move is designed to meet increasing uptake of its existing products and anticipated strong demand for Cervarix (a potential blockbuster drug), a new vaccine to prevent cervical cancer that is expected to be approved next year. A green light for Cervarix in Europe could come in the first half of next year, while in the United States the product is still targeted for filing with the FDA by the end of 2006. BUY</p>

## The Week Ahead

Date	Region	Event	Period	Consensus	Prior
03/10/06	UK	Tesco	H1	9.8p	8.9p
04/10/06	UK	BP	Q3 Trading	N/a	N/a
05/10/06	IRL	United Drug	FY Trading	N/a	N/a
05/10/06	UK	BOE rate announcement	N/a	4.75%	4.75%
05/10/06	EU	ECB rate announcement	N/a	3.25%	3.00%
06/10/06	US	Non Farm Payrolls	September	123k	128k

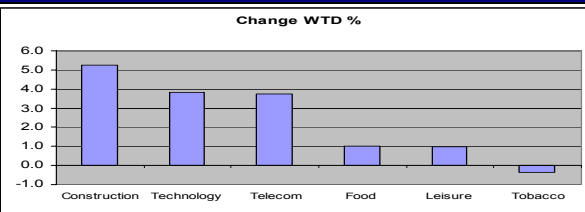
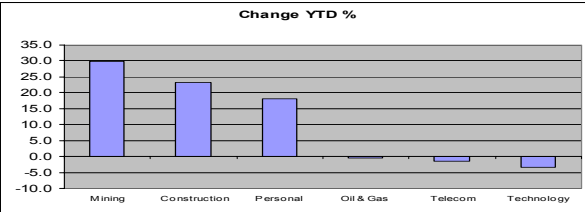
## The Week-End Papers

Paper	Company	Comment
Sunday Times	<b>Aer Lingus</b>	Big Four steer clear of Aer Lingus float
Sunday Times	<b>BOI</b>	Goggin opposed O'Brien's appointment as deputy
Sunday Times	<b>IAWS</b>	Sharewatch ... IAWS ..... more than food for thought
Sunday Times	<b>Tullow Oil</b>	Big Game Hunter .... interview with Aidan Heavey of Tullow Oil
Sunday Independent	<b>Irish Nationwide</b>	Nationwide race hots up as NIB's interest cools
SBP	<b>Zamono</b>	Zamono to be valued at €25m in flotation
SBP	<b>Anglo Irish Bank</b>	Anglo chooses docklands site
SBP	<b>African Diamonds</b>	John Teeling's exploration firm has just found a 13.5 carat diamond in Botswana, but his oil ventures in Iraq are failing to shine.
SBP	<b>Tullow Oil</b>	Tullow boosts oil reserves with Hardman buy
Sunday Tribune	<b>Irish banks</b>	Irish top of EU league for personal borrowing

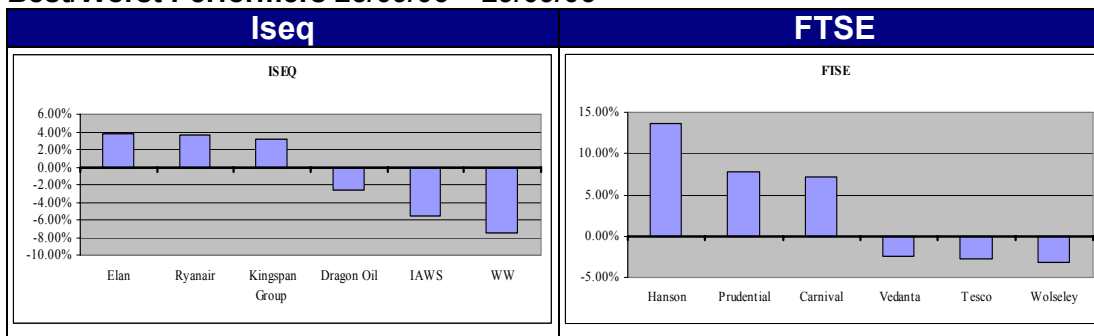
## Last Week's Moves

	Levels	Last week's moves	YTD Move
<b>Equities</b>			
FTSE	5,955	2.46%	6.17%
Dow	11,715	1.81%	9.32%
S&P	1,337	1.79%	7.21%
Dax	6,007	2.13%	11.10%
DJStoxx	3,550	1.58%	6.08%
Iseq	8,222	1.12%	11.78%

	Div Yield-FY1	EPS Growth-FY1	P/E-FY1	P/E-FY2
ISEQ	2.55%	14.1%	12.0	10.5
UK	3.40%	15.5%	13.0	12.4
US	2.10%	10.9%	16.2	15.1
Eur	3.19%	15.0%	12.7	11.9

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Mining	3.03	29.97	
Construction	5.24	23.19	
Personal Goods	1.83	18.15	
Utilities	1.74	17.42	
General Retailers	2.02	16.49	
Banks	1.66	14.82	
General Industrials	2.14	12.89	
Autos	1.84	11.57	
Insurance	3.33	10.11	
Food Producers	1.01	10.00	
Beverages	1.84	8.02	
Chemicals	3.27	7.65	
Pharmac & Biotech	2.54	7.31	
Leisure Goods	0.98	5.52	
Media	2.11	5.21	
Tobacco	-0.37	4.47	
Software	1.70	-0.17	
Oil & Gas	3.05	-0.51	
Telecoms	3.73	-1.48	
Technology	3.84	-3.46	

## Best/Worst Performers 25/09/06 – 29/09/06

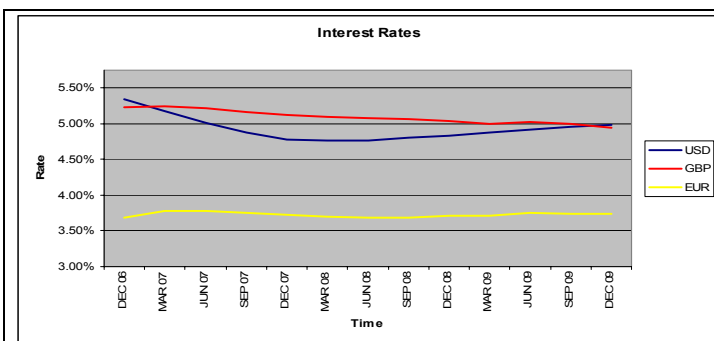


Irish shares were close to one percent higher last week as the improving sentiment towards equities continued while Irish companies such as IAWS and McInerney both reported results matching market expectations.

The FTSE 100 index closed over two percent higher last week and on Friday broke through the key 6,000-point psychological level for the first time since mid-May. Investors showed renewed interest in the recently beaten-down commodity sector.

Section  
**2** **Commodity, Currency & Credit Markets**

	Current			YTD Change			Year End Forecast		
	EURO	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
<b>Base Rate</b>	3.00%	4.75%	5.25%	0.75%	0.25%	1.00%	3.50%	4.75%	5.50%
<b>3 Month</b>	3.42%	5.07%	5.37%	0.90%	0.86%	0.35%	3.61%	5.15%	5.45%
<b>12 Month</b>	3.72%	5.27%	5.30%	0.65%	0.63%	0.04%	3.77%	5.29%	5.15%
<b>5 Year</b>	3.62%	4.73%	4.59%	0.56%	0.56%	0.24%	3.80%	4.80%	5.00%
<b>10 Year</b>	3.71%	4.52%	4.65%	0.40%	0.42%	0.25%	4.00%	4.95%	5.05%
<b>EUR-USD X-RATE</b>	1.26965			6.52%			1.300		
<b>EUR-GBP X-RATE</b>	0.67865			-1.34%			0.685		
<b>CRUDE OIL FUTR</b>	63.16			-0.88%					
<b>NAT GAS FUTR</b>	7.2			-37.89%					
<b>GOLD SPOT \$/OZ</b>	595.54			15.32%					
<b>SILVER SPOT \$/OZ</b>	11.315			28.47%					
<b>LME ALUMINUM</b>	2605			14.41%					
<b>LME COPPER</b>	7470			69.97%					

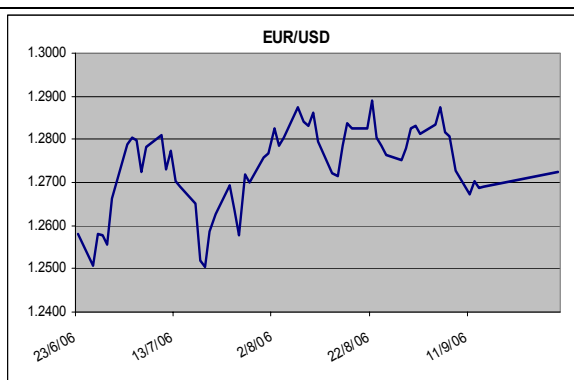


**Comment:**

Bond markets last week continued to remain well bid as the recent falls in commodities prices underlined the bullish tone in the markets. Oil prices fell briefly below the \$60 a barrel level, giving hope to the bond markets that headline inflation would see a similar fall. Headline inflation for the Eurozone area fell below the 2% annualized rate this month at 1.8%.

This week the E.C.B are expected to raise rates to 3.25%. What the markets will pay more attention to is the tone of Mr Trichet comments and how aggressive future hikes maybe. The yield curve has flattened a lot over the past year and the future shape will depend on how aggressive the E.C.B will be.

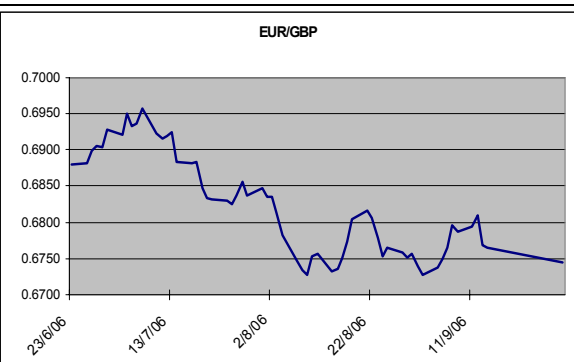
## Currency Comment



### Comment : EUR/USD

The greenback bounced back last week's, trading 1.2670 on Friday evening, not necessarily on its own merits, but rather because data from Europe was even more negative than the results from United States. On the surface US housing sector appeared to have stabilized and even improved as both Existing and New Home Sales figures recorded much better than expected readings. Eurozone data was mixed with the headline reading from the key event of the week - the IFO survey - beat consensus estimates the futures expectations component dropped below 100 on fears of ever higher interest rates, increase in taxes and persistently high energy costs sending euro down as a result. Perhaps most damaging of all was the unexpected flat reading in German Retail sales which were anticipated to increase by 0.8%.

US economic agenda will start on Monday with the release of the reports for construction spending for August and of the ISM manufacturing for September Tuesday will see the ISM non-manufacturing report for September and of the factory orders report for August. It's the first Friday of the new month, so we have the release of the non-farm payrolls report for September. The unemployment rate should remain flat at 4.7 percent. The direction of the USD this week will depend very much on the data, as EURUSD is at the bottom of the recent range, it could prove to be a pivotal week for the pair.



### Comment : EUR/GBP

Sterling weakened to 0.6780 from highs beyond 0.67 against the Euro. MPC member Blanchflower stated that inflation risks had decreased while there was additional spare capacity due to the fact that the labour market had weakened. The National Statistics Office was an usual focus of attention after it reveal an error in the inflation data. The overall increase in nominal GDP was revised down to 4.8% for the second quarter from 6.0% as export prices were revised down. The Bank of England referred to this indicator as a source of potential concern in the last set of minutes and the corrected data resulted in a downward revision to interest rate expectations.

The BOE policy meeting will certainly be the focus of this week, however, if the MPC decides to hold rates as expected at 4.75%, traders will have to wait until later in the month to see the minutes for further insight. ECB is expected to raise rates another 25 basis points to 3.25%, but last week the apprehensive nature of the latest economic releases from Euro-land raised questions amongst currency traders as to how many more rate hikes will the Central Bank put into effect.

## Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Yield	
AAA	Rabobank	3.65%	3.74%	The Itraxx* widened 0.5bps over the week to end at 30bps. Worries over US growth, as reflected in economic data, have weighed heavily on credit investors. In addition LBO activities seem to be back on the agenda, the bane of the credit markets.  *ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market
AA	Deutsche Bank	3.95%	3.83%	
A	Tesco	3.83%	3.97%	
BBB	MKS	5.30%	5.50%	
BB	Royal Caribbean Cruise lines	5.73%	6.27%	

### Sector Movements in week ended 29/09/06:

- **Auto:** Both French automakers were wider this week; Renault +3bps, primarily due to ongoing reports that the GM talks are still on track, which is seen as a risk for Renault. Peugeot was also wider, but only marginally at +1bps. German automakers were mixed with BMW unchanged, VW +2bps while DCX was 5bps tighter as investors take advantage of attractive spreads following the recent widening triggered by a recent profit warning. In the US GM and Ford continue their roller-coaster ride, both were wider on speculation that a housing slump in the US would be detrimental to demand for pick-up trucks.
- **Building materials:** Mixed in the sector with only French building materials company moving; Saint Gobain +4bps and LaFarge +3bps – following housing data in France, which indicated a slow down in home building during the Summer. The building materials investors will be hoping this was just a lull during the July heat wave in France.
- **Chemicals:** Both Bayer and Linde were wider this week – Bayer +2bps following an explosion at a Bayer plant in Texas; Linde was 5bps wider after a private equity firm was reported to be interested in the forklift arm of the company. BASF was 1bps tighter after they announced plans for a €1b expansion in Belgium.
- **Airlines:** Volatile sector this week with the biggest move in BAA after S & P kept the rating on negative credit watch. British Airways was 1bps tighter after announced plans to hold talks with unions in an effort to reduce the growing pension deficit. Lufthansa, Rolls Royce and BAE are all unchanged.
- **Food/Beverages:** Mixed in the sector, with Compass widening 1bps after the company announced weaker than expected sales growth due to the disposal of some contracts during the year as part of the cost cutting programme. Speculation of a break-up of the company continues; Tesco was 1bps tighter in the run up to its earnings release on October 3<sup>rd</sup>. Sainsbury's and Carrefour were both unchanged.
- **Telecoms:** Mixed in the sector – with Deutsche Telecom –2bps after a rival bidder for Polska Telefonia declared bankruptcy, increasing the likelihood of success for Deutsche Telecom. Vodafone and British Telecom were both unchanged, while KPN tightened 2bps after it announced plans to expand its mobile business outside its existing markets of Netherlands, Germany and Belgium.
- **Retail:** Wider across the sector on continuing consumer spending concerns - companies hardest hit were Dixons and Kingfisher, the luxury goods and DIY retailers. Elsewhere each MKS; GUS and Boots was 1bps wider.
- **Media:** Mixed in the sector with BSkyB widening 3bps; Reuters 1bps tighter and EMI 2bps wider. BSkyB paid £1.7b for a 3 year contract to show live coverage of UK premier division football; Reuters had the revenue growth forecast increased by Morgan Stanley; while The Times reports Warner Music is about to launch a fresh bid for EMI.

## Dolmen Stockbrokers contact numbers

### Joint Managing Directors

Ronan Reid	01 633 3894
Gerardine Jones	01 633 3803
Paul McGowan	01 633 3875

### Stockbrokers

Leonard Abrahamson	01 633 3816
Suzanne Berkery	01 633 3881
Fergus Briscoe	01 633 3878
John Cronin	01 633 3897
Sheena Coen	01 633 3847
Jeffrey Flynn	01 633 3821
Richard Goodbody	01 633 3646
Mark Kelly	01 633 3883
Paul Kelly	01 633 3867
Bryan O'Neill	01 633 3864
Colm O'Reilly	01 633 3870
Richard Power	01 633 3891
Barry Relihan	01 633 3622
Peter Shubotham	01 633 3836
Stephen Tynan	01 633 3873
Ken Williams	01 633 3647
Ronan Goggin (Cork Office)	021 422 2122
Edmund Moloney (Cork Office)	021 422 2122
Donal Ring (Cork Office)	021 422 2122
Ernest Holloway (Limerick Office)	061 405 713
John Ring (Limerick Office)	061 405 713

### Dealers

Padraig Brennan	01 633 3879
JP Maguire	01 633 3615

### Research

Stuart Draper	01 633 3850
Owen Turner	01 633 3829

### Fund Management

Martin O'Sullivan	01 633 3892
David Beaton	01 633 3877
Maire Kirby	01 633 3890
Ciaran Mulhall	01 633 3896
Ailish Connolly	01 633 3626
Joseph Dempsey	01 633 3835
Claire Lanigan	01 633 3823
Damian Howley	01 633 3898
Mary-Rose Ahern	01 633 3874

### Client Services

Tracy Kelly	01 633 3888
Siobhan Tyrrell	01 633 3888
Jonathan Bredin	01 633 3888
Ruairi O'Brien	01 633 3888

### Head of Middle Office

Connor Maguire	01 633 3812
----------------	-------------

### Head of Compliance

Mark Ambrose	01 633 3804
--------------	-------------

### Disclosures

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes only to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor. Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgement as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuers(s) in advance of publication.

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. Investors may not necessarily recoup the full value of their original investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

Dolmen Securities is a Member Firm of the London Stock Exchange, and is authorised by the Financial Regulator under the Investment Intermediaries Act 1995. Dolmen Stockbrokers is a Member Firm of The Irish Stock Exchange, The London Stock Exchange, and is authorised by the Financial Regulator under the Stock Exchange Act 1995. Dolmen Stockbrokers is regulated by the Financial Regulator as a Mortgage Intermediary.

### Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments/ derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in issuers they publish research, views and recommendations on and accordingly analysts involved in the production of this report may own stocks in a company covered in it. Any own account staff trading is undertaken in strict compliance with Dolmen's own account internal rules and therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

### Analyst Certification

Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

### For US Persons Only

This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.