

# Traders Update

MONDAY 3RD SEPTEMBER 2007

## Brief Market Comment

On the surface, a 1% gain last week for the European indices and an unchanged performance for the broader US averages, looks respectable, however the continued volatility behind this performance demonstrated the uncertainty that still overhangs markets. The focus in the coming week lies squarely on the ECB as investors await its decision on interest rates. Having injected liquidity into the system over the last two weeks, there is reason to believe that the anticipated rate hike will not happen, however the ECB, like the Fed, have the broader economy to consider rather than the suffering of financial institutions who over-indulged at the leverage punch bowl. Our view is that the ECB will take a time-out and defer any future rate decision until October, which will do little to settle the current period of market uncertainty. We anticipate markets will remain range-bound at least until the Fed meets on 18th September, while short-term volatility will be driven by the release of key economic data from the US with the Manufacturing ISM released on Tuesday and Non-Farm Payrolls released on Friday. Following 5 straight weeks of increasing jobless claims, this figure will be monitored closely. From an investment perspective we continue to prefer the more defensive sectors such as pharmaceuticals, food retail, beverages, utilities, telecoms and oil & basic resources.

## TRADING IDEAS, EARNINGS & PREVIEWS

### CRH

Target	€40.00
P/E 07	12.23
Div Yield 07	1.85%
Next event (E)	06/03/08

### BUY

Last week, **CRH** announced the acquisition of the remaining 55% of the Dutch cement business, Cementbouw, not already owned by the Irish group, for c.€100m. This announcement reduces the probability of the group making a major bid for Tarmac, particularly as €100m bolt-on acquisitions are much more in keeping with the group's tried and tested acquisition strategy than major deals, and as a brand such as Tarmac is likely to command a high premium. CRH has a track record of involving itself in sector consolidation in a disciplined manner that ensures the continuation of strong eps growth for shareholders. Last week, the group announced profit before tax and earnings per share of €660m and 90.8c respectively for the 6 months ended 30/06/07, c.2% ahead of consensus forecasts, and year on year increases of 27% and 26%. Our current 12 month share price target for CRH of €40 values the shares at 14.3x 2008 eps of €2.80 : **BUY**.

### AIB

Target	€24.50
P/E 07	9.1
Div Yield 07	4.00%
Next event (E)	07/12/07

### BUY

The H1 2007 results announced last week by Irish Life & Permanent showed a more resilient than expected net interest margin and stronger than expected commercial lending. This augers well for **AIB's** H2 2007 earnings, with the potential also for Anglo Irish Bank's trading statement this Wednesday, 5th September, to provide some reassurance with regard to the current health of the Irish and UK business lending markets. When the value of AIB's 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 : **BUY**.

### British Land

Target	£17.50
NAV 07	£16.82
Div Yield 07	1.57%
Next event (E)	21/11/07

### BUY

Last month, **British Land** announced its results for the 3 months ended 30/06/07. Net asset value (NAV) per share of £17.30 was c.1% ahead of the consensus forecast of £17.16, and was an increase of 2.9% on the £16.82 as at 31/03/07. The growth was driven by a 1.3% valuation uplift together with a 1.6% gain on property disposals. The result keeps the group on target to achieve full year NAV per share growth of 9% to £18.33 as at 31/03/08. As a result, our current 12 month target price remains £17.50, which is based on a 5% discount to year end NAV per share of £18.33. The results' announcement also provided some important reassurance that the UK office property market remains buoyant currently, and that the UK retail property market also remains solid : **BUY**.

### Vodafone

Target	£1.80
P/E 07	14.40
Div Yield 07	5.00%
Next event	13/11/07

### BUY

One of our main reasons for consistently recommending **Vodafone** as one of our top 12 stock picks over the past 18 months has been that the subscriber growth of the group's emerging market businesses would continue to offset the margin pressure of the group's more mature Western European markets, such as the UK, Germany and Italy. The acquisition, in February, of a 67% stake in the number 4 Indian mobile business, Hutchison Essar, combined with the group's acquisitions in Turkey and Africa last year, should result in c.33% of group profits being generated from emerging markets by 2012, versus c.20% currently. This should help generate average eps growth of c.6% pa over the next 2 years, stronger than the average of the incumbent telecom sector, which is expected to be c.3% over the same period. As a result, our current 12 month price target of £1.80 is based on 15x current year eps of 11.9p, and rates the shares at a deserved 10% premium to the current incumbent telecom sector average : **BUY**.

### Kingspan

Target	€21.00
P/E 07	18.12
Div Yield 07	1.11%

### BUY

This morning, **Kingspan** announced EPS of 51.4c for the 6 months ended 30/06/07, 8% ahead of consensus forecasts and 31% higher year on year. The growth was driven by insulation profit growth of 34% to €78.1m, raised access flooring profit growth of 69% to €12m and offsite and structural profit growth of 13% to €14.2m. The company's outlook statement noted that order books in key areas are stronger than ever and full year operating profit growth for 2007 of "at least" 20% can now be expected, a slight upgrade on the previous guidance for operating profit growth of "in the region of 20%". Following this morning's stronger than expected H1 results, we now upgrade our 2007 eps forecast by 3% to €1.05, and our 12 month share price target from €20 to €21, which is based on 20x current year eps: **BUY**.

### Anglo Irish

Target	€18.00
P/E 07	11.20
Div Yield 07	1.24%
Next event	05/09/07

### BUY

**Anglo Irish Bank** will issue its full year pre-close period trading statement this Wednesday, 5th September, which is expected to confirm continued strong loan growth, even though the absolute H2 figure of c.€8 bn is expected to be slightly lower than the exceptionally strong €9.3 bn of H1 2007. Last month Anglo confirmed to us that it is comfortable with its funding requirements, despite recent market volatility, and credit quality is expected to have remained strong, helped by the group's negligible exposure to the US sub prime market. With consensus forecasts expecting current year eps growth of 31% to €1.23 and further 20% eps growth to €1.48 for the year ending 30/09/08, further earnings upgrades post the trading statement may not be required to push the share price higher over the coming weeks : **BUY**.

## Hedging Strategy

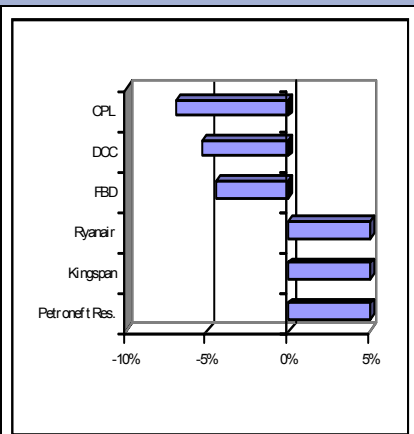
Due to the on going volatility in equity markets it may be prudent for investors to implement a hedging strategy in order to protect their investment portfolios from downside risks. For example, take an investor that has a portfolio valued at £500,000 comprised of 5 long positions in FTSE 100 companies (Vodafone, BP, Tesco, RBS and BHP) all of equal weighting. The investor must first calculate the adjusted beta value (adjusted value for each extra unit of risk versus the FTSE 100) of the portfolio which in this case works out to be £526,000. For the investor to hedge this long position we recommend that they take an opposing position (i.e. sell) the FTSE 100 futures index. With the FTSE 100 futures index currently trading at 6315.50 (value of contract £63,155) representing the price of the index 6315.5 multiplied by the value of one point £10. The investor could sell (short) 8 FTSE 100 futures contracts, which represents a 96% hedge for the above portfolio. **The hedging policy associated with any positions should be monitored on an ongoing basis to reflect changing views of the underlying market. As the overall market view changes the hedge can be adjusted to reflect such. For example, the recent move higher in equity markets and with a number of key economic data releases this week a 100% hedged policy would be prudent. It should also be noted that an investment horizon of one month would be most suitable for this type of action.**

# DOLMEN STOCKBROKERS Traders Update

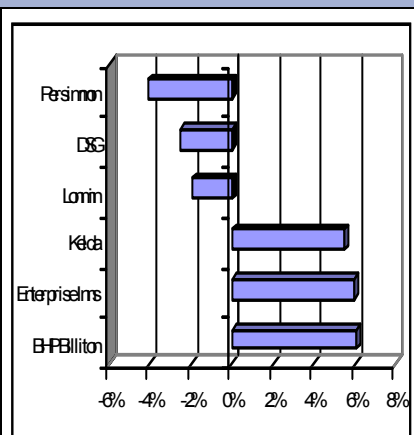
## Last Weeks Best/ Worst Performers

24/08/07-31/08/07

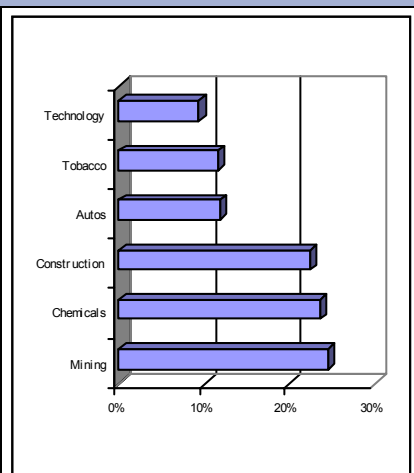
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS	
AIB	18.71	-3.95%	-13.82%	Home loan lending in Ireland grew at its slowest rate in five years during July	
Aviva	7.09	-1.53%	-10.02%	The group is to build a new US headquarters in Iowa after acquiring a 71 acre site in West Des Moines	
BP	5.58	0.90%	3.46%	BP secured antitrust approval to build a biofuels plant in England	
B. Land	12.93	1.25%	-22.05%	British Land continued its share buyback program during the week	
CRH	31.63	4.32%	3.23%	Posted strong H1 results with PBT and EPS both 2% ahead of forecasts	
GNC	4.60	0.00%	1.69%	Origin recently purchased Greencore's 50% stake in Odium for €35m	
GSK	12.95	0.08%	1.29%	GSK and its partner Adolor announced that US regulators agreed to review their Entereg drug	
IL&P	18.25	1.05%	-1.04%	Raised full-year earnings guidance for pretax operating profit growth of over 20% from high teens	
LAD	4.36	4.31%	10.06%	UK regulators cleared Sportech's proposed purchase of Ladbroke's pools unit	
RBS	5.75	-1.03%	-4.60%	ABN to hold EGM on September 20th to discuss Barclays and RBS-led group bids for the company	
Ryanair	5.34	5.12%	1.03%	Irish planning authority approved plan for new terminal and runway at Dublin airport	
VOD	1.60	1.91%	18.42%	Vodafone's Indian unit and its peers may be allowed to acquire 20% of rival operators in India	
DD Unrealised gain YTD			-1.03%	ISEQ YTD	-10.09%
DD Realised gain YTD			-0.22%	FTSE YTD	+3.16%
DD Total YTD			-1.25%	Average performance	-3.47%
Relative performance YTD			2.22%		

### What it says in the 'Sundays'

- "Squeeze tightens on Aer Lingus" - **Sunday Business Post**
- "Good results spell a bright start for Casey at ILP" ILP - **Sunday Business Post**
- "Dairy giant see value go off a bit" **Glanbia- Sunday Times**
- "Room for Easyjet to Rise" **DCC- Sunday Times**
- "Bad weather helps Guinness sales" Diageo — **Sunday Tribune**
- "Fyffes wasteful split" **Fyffes - Sunday Independent**

### Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Aer Lingus	-11.68%	31/08/2007	Aer Lingus' Finance Director Greg O'Sullivan told us that ancillary revenues will be the key growth driver for the company.
Anglo Irish	-12.20%	09/08/2007	David Drumm stated that the current sub-prime panic would appear to be generating an attractive competitive environment for Anglo in the US
Metro Baltic	-10.21%	13/07/2007	James Kenny reiterated that the company has now fully invested 95% of funds raised. He also stated that going forward the company will focus on St. Petersburg.

# Last Weeks Moves

## Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	8400.93	0.87%	-10.76%	2.19%	13.04
FTSE 100	6303.30	1.47%	1.08%	3.83%	12.62
DAX	7631.09	1.83%	15.89%	2.56%	13.52
Dow Jones	13347.82	-0.28%	7.04%	2.15%	16.15
S&P 500	1470.85	-0.55%	3.73%	1.85%	17.03
Nasdaq	2586.41	0.42%	7.13%	0.72%	36.77
DJ Stoxx 50	3758.31	1.20%	1.75%	3.57%	12.44
Nikkei 225	16569.09	1.97%	-3.81%	1.17%	35.03

## Sector

	WEEKLY MOVE %	YTD MOVE %
Mining	1.94%	26.41%
Chemicals	1.24%	26.09%
Construction & Materials	0.47%	22.99%
Technology Hardware & Equipment	3.66%	15.19%
Tobacco	1.16%	12.70%
Beverages	3.06%	10.48%
Automobiles & Parts	-1.38%	8.65%
Personal Goods	1.51%	7.79%
Media	0.85%	6.23%
Telecommunications	1.74%	4.65%
Oil & Gas Producers	1.57%	3.95%
Leisure Goods	0.94%	1.44%
Gas, Water & Utilities	3.70%	0.98%
Food Producers	2.18%	-0.22%
General Industrials	-0.19%	-0.38%
Pharmaceuticals & Biotechnology	0.88%	-1.84%
Insurance	0.01%	-5.88%
General Retailers	0.56%	-7.19%
Software & Computer Services	1.51%	-7.45%
Banks	-0.53%	-8.74%

## Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$74.04	11.73%
Gold Spot	\$671.96	5.69%

## Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.36	3.17%	1.35
EUR-GBP	0.676	0.40%	0.665
EUR-JPY	157.81	0.66%	145.00

## GDP Growth

	YEAR END 06	YEAR END07(E)
Ireland	6.00%	5.00%
Euro Zone	2.70%	2.50%
UK	3.00%	3.00%
US	2.60%	2.10%

## Central Bank Interest Rates

	CURRENT	YEAR END(E)
Euro Zone	4.00%	4.00%
UK	5.75%	6.00%
US	5.25%	4.75%

## Credit Market Summary

Credit markets ended the week marginally wider at 328bps from 321bps last week. Spreads had widened midweek to 350bps but tightened Friday on reports that the Bush administration were going to provide a federal guarantee for distressed sub-prime borrowers in the US. Spreads are expected to remain above 300bps and are highly susceptible to further widening in this volatile environment. However this week spreads movements were very much name specific rather than market wide.

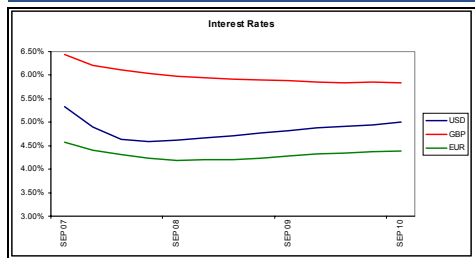
## Credit Sector Movements for week ended

**Airlines:** Mixed in the sector – British airways was 4bps wider this week despite reports the BA and its private equity partner Texas pacific group are planning a significantly reduced offer price for Iberia airways. Lufthansa was unchanged this week while both Rolls Royce and BAE systems tightened 2bps and 1bps respectively. Rolls Royce this week announced it had won a \$400m Tiger Airways order.

**Food/Beverages:** Tighter in the sector – Cadbury's tightened 1bps this week after the company announced plans to sell shares in its US drinks division in Q1 2008 after takeover bids failed to take off. Diageo tightened initially upon announcing profit growth to June 2007 however widened again mid week to finish 2bps wider despite a strong growth story particularly in the US market. Compass tightened 2bps this week.

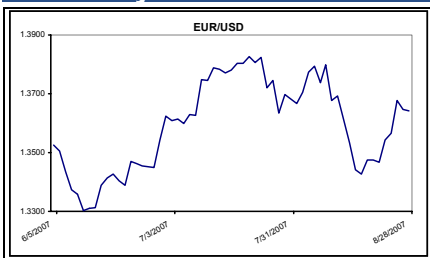
**Telecoms:** Wider in the sector – BT, DT and Vodafone all widened this week following reports in the WSJ that a minority investment by Blackstone in Deutsche Telecom, 18 months ago, has yield a tidy return, prompting fears that private equity groups may be considering similar strategies in other European telecoms as a way to deploy excess cash.

## Interest Rate Outlook

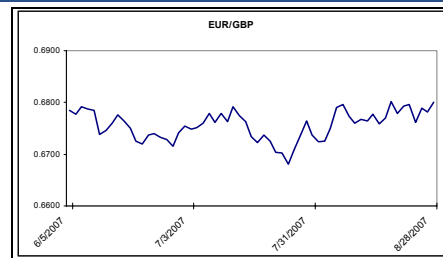


The US ten-year treasury yield continued its decline last week falling by 9 basis points to 4.53% as investor continue to flock to risk free assets. The ten-year yield may get some support on Friday however if the non-farm payrolls number comes in higher than the 105,000 expected.

## Currency Comment



The € continued to trade above the \$1.36 mark last week as the \$ continues to remain under pressure. The ECB is due to meet on Thursday and the market is still unsure whether or not it will raise rates as it had previously indicated. Comments from Trichet last week left the door open for a pause in the tightening cycle, however, the ECB is likely to retain its vigilant stance on inflation.



The € weakened slightly against £ last week with expectations increasing that the ECB will pause on its recent tightening cycle. The BoE is also due to meet on Thursday and is expected to keep rates on holds at 5.75%. The main focus however will be on the € next week and the ECB press conference on Thursday.



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