

Traders Update

MONDAY 3RD DECEMBER 2007

Market Comment

Is this a case of de ja vu? Ten days before a Fed meeting, economic data poor at best, US equity markets surging as expectations build of at least a 25 basis point cut, with even some hope of a 50 basis point cut. Well if it is de ja vu, be careful since the last time this price action took place was in the run up to the October rate decision, with the end result being that the markets got what they had priced in and subsequently retraced all their pre rate decision gains. Without doubt the US economy needs a rate cut as weekly jobless claims tick higher, construction spending declines and the housing market remains on its knees, however whether a cut, be it 25 or 50 basis points will alleviate the real problem for the financial system - liquidity- is doubtful. The markets have reverted back to a mood of good news is good news and bad news is good news since it leaves the Fed with less of a reason not to cut rates, but the markets need to be careful not to get complacent. There are still underlying structural concerns such as the weak dollar, twin deficits and inflation risks that lurk in the background, so caution ahead of not just the Fed (11th Dec), but also the Bank of England and ECB this Thursday might appropriate. While we therefore expect the markets to consolidate recent gains, the chances of further significant gains may be limited.

TRADING IDEAS, EARNINGS & PREVIEWS

Facts, fiction & forecasts : The Irish Banking sector

Given the recent credit market crisis, we published a note last week on the overall **Irish banking sector** focussing on the current fears surrounding funding rates, credit quality and loan growth. The analysis explored worst case scenarios where current credit market conditions prevailed until the end of 2008, where 2008 loan growth ranged between 5% and 10%, where bad debts charges ranged between 0.2% and 0.25%, and where cost/income ratios showed no improvement on current levels. Even in the event of all of these worst case scenarios happening, all of the Irish financials would still appear very attractively valued at current levels by comparison with historical average earnings multiples. Current valuation levels have not been seen in over 15 years, when a very different interest rate environment of DIBOR above 10% prevailed. Indeed the positive gap between the 3 month interest rate and the average dividend yield of Bank of Ireland, AIB and Irish Life & Permanent is now greater than at any stage over the past 30 years.

Anglo

Current : €11.90
P/E 07 : 7.9x
Div 07 : 1.98%
Target : €15.20
Next Event : 9/3/08

BUY

Last week, the group CEO of **Anglo Irish Bank**, David Drumm, and the CEO of its US division, Tony Campbell, visited us following the bank's announcement the previous day of its full year results. The earnings per share figure of 131.7c was c.3% ahead of the consensus forecast of 128c, and was a year on year increase of 41%. The growth was all the more impressive as it was after €112m in write-downs associated with SIV and sub-prime CDO positions. The growth was driven by strong 34% loan growth, stable margins, with the lending net interest margin increasing from 2.02% to 2.04%, combined with robust credit quality of a bad debts charge of only 0.09% of average loans. Crucially, the bank confirmed that it remained on target to achieve eps growth "in excess of 15%", which translates into underlying eps growth in excess of 10% ex the €112m SIV related write-down, in line with our current 2008 eps forecast of €1.52. The management meeting reinforced our view that the outlook for the bank's credit quality and net interest margin remain much more resilient than current consensus expectations, and we expect a further upward share price re-rating when commercial property and credit market activity levels start to recover in 2008. Our current 12 month share price target of €15.20 (28% further upside) is based on 10x 2008 eps of €1.52. The bank was also added to the MSCI index last Friday, even though most of the associated 5 days average trading volume has already taken place.

IN&M

Current : €2.16
P/E 07 : 11.25x
Div 07 : 6.2%
Target : €3.80

BUY

Independent News & Media (INM) recently bought back another 1.25m of its own shares, paying up to €2.20 per share, and last week Denis O'Brien increased his stake in the Irish media group to 12.2%. Trinity Mirror's recently released trading statement for the 10 months ended 31/10/07 indicated that a significant year on year improvement in the Irish media group's UK business could be reported in its year end trading statement later this month. INM's stronger than sector average earnings growth warrants a premium valuation, even though at 10.0x consensus 2008 eps of 21.5c, the shares are now trading at a 17% discount to the current European newspaper sector average of c.12x. The shares will also pay a current year dividend yield of c.6.2% for waiting for this discount to close. The group's year end trading statement later this month could act as a positive catalyst for the share price from its current c.€2.16 level. Even though the group was deleted from the MSCI index last Friday, most of the associated 5 days average trading volume has already taken place.

Ryanair

Current : €4.98
P/E 08 : 16.0x
Target : €6.50

BUY

Last week, the oil price fell by c.\$10, its largest weekly fall ever. Further such weakness over the coming months would give **Ryanair** an opportunity to extend its hedging from its current position of being 90% hedged to March 2008. The airline's chief operating officer, Michael Cawley, recently visited us as part of the company's post Q2 results' roadshow. The update emphasized the strong further growth potential of the European aviation market, with overall passenger growth of 4% per annum expected between now and 2012. With net cash of €175.2m currently, Ryanair is largely immune to the current credit market crisis. It is currently guiding full year net profit growth of 17.5%, and our current 12 month share price target of €6.50 (32% upside) is based on 20x forward earnings per share of 32.5c.

HP

Current : \$51.16
P/E 08 : 15x
Div 08 : 0.7%
Target : \$60.00

BUY

Hewlett-Packard (HP) recently reported a strong set of fourth results and guidance for 2008 that came in ahead of analyst expectations. EPS rose by 27% to \$0.86 on revenue that increased by 15% to \$28.3bn, beating consensus estimates of \$0.82 and \$27.4bn, respectively. HP's gross margin also remained strong at 24.7%, an increase of 4 basis points over the same period last year. HP continues to benefit from increased international exposure with 67% of its revenue generated from outside the US. While the group is benefiting from the weak US dollar it is growth at its emerging markets business that will drive earnings going forward. Revenue at HP's BRIC countries geography (Brazil, Russia, India and China) grew by 37% during the fourth quarter and now represents 9% of total group revenue. Last week, HP's closest peer, Dell, reported third quarter results that were slightly light of analyst expectations and the stock fell by c. 12%. Dell's disappointing results highlight the increased pressure in has come under from HP as it continues to take market share away from Dell.

Paddy Power

Current : €21.50
P/E 07 : 18.5x
Div 07 : 2.2%
Target : €26.00

BUY

On the 5th of September Paddy Power announced H1 results with earnings per share of 69.5c, 10% ahead of consensus forecasts of 62.5c and double the same period a year ago while operating profit was up 108% to €40.8m. This was largely due to the Irish division posting operating profit of €22.5m up 131% to on the same period last year. Despite extremely impressive results our view was that there would be better entry levels available in the months ahead, on a valuation basis. We upgraded our 12-month price target to 20x 2008 eps of €1.30 giving a new price target of €26 but kept our neutral recommendation on the Stock. With the share price down from €28.95 on the 1st of November to c. €21.50 currently we feel that now is a perfect buying opportunity.

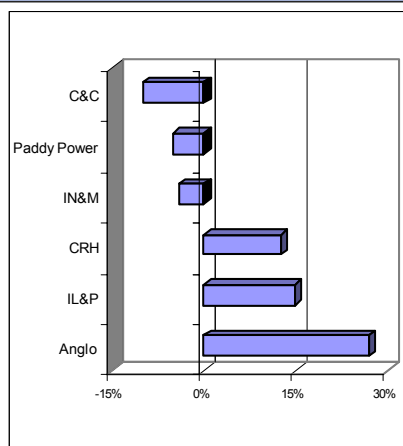
Week's Events EARNINGS: Mon (IAWS, TS) Tues (Tesco, TS) Wed (Ryanair, Traffic) (British Airways, Traffic) (Standard Chartered, TS) Thurs (RBS, TS) (AIB, TS) Fri (EasyJet, Traffic) (Abbey, Interim)

ECONOMIC DATA: Monday (US ISM Manufacturing, Prices Paid), Tuesday (Euro-Zone PPI), Wednesday (Euro-Zone PMI, Retail Sales, UK PMI, US ADP Employment, Nonfarm Productivity, Unit Labor Costs, Factor Orders, ISM Non-Manufacturing), Thursday (UK Industrial & Manufacturing Production, German Factory Orders, BoE and ECB Interest Rate Decisions), Friday (US Nonfarm Payrolls, Michigan Confidence)

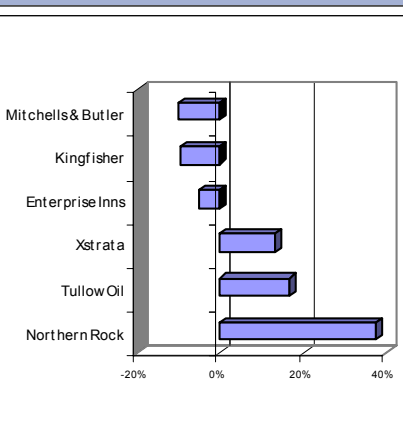
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/ Worst Performers 23/11/07-30/11/07

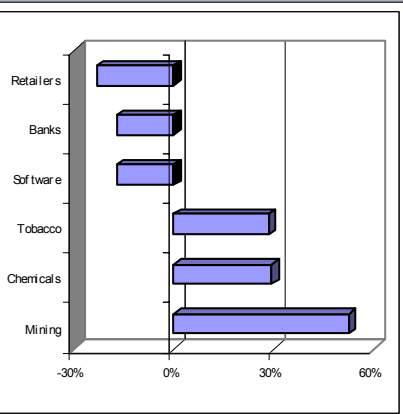
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

The following changes have been made to the Dolmen Dozen : IN (IAWS, Coca-Cola, Hewlett Packard, Microsoft, Paddy Power) OUT (Ladbrokes, RBS, GSK, SAP, Greencore)

| Company | WTD | DD Return* | Relevant news |
|-----------------|-------|------------|--|
| AIB | 10.5% | -30.4% | Ahead of a group trading statement on Thursday |
| Aviva | 1.6% | -11.8% | Aviva is aiming to cut costs by £350m by the end of 09 in a move that could lead to further job cuts |
| BP | 2.1% | 12.3% | Announced results recently with underlying replacement cost net profit 2% ahead of consensus |
| Coca Cola | -0.3% | 2.2% | Planning to invest \$250m to expand capacity in India |
| CRH | 9.8% | -17.7% | Acquired \$250m of assets from Cemex in the US, however its wider negotiations have been cancelled |
| Hewlett Packard | 4.0% | -5.5% | Added to Goldman's conviction buy list |
| IAWS | 2.6% | -6.6% | Announced in its trading statement that the continued strength from last year has continued into Q1 |
| IL&P | 8.5% | -24.6% | Continued weakness due to its large exposure to the Irish housing market |
| Microsoft | -1.5% | 0.0% | US consumers bought 310,000 Xbox consoles last week |
| Paddy Power | -3.3% | -2.1% | UK peer announced some disappointing results recently |
| Ryanair | -2.9% | -12.5% | Ahead of traffic figures for November on Wednesday |
| Vodafone | -2.7% | 38.7% | Recent results beat expectations, company raised full year guidance |

| | | | |
|------------------------|----------------|---------------------|---------------|
| DD Unrealised gain YTD | -4.08% | ISEQ YTD | -23.99% |
| DD Realised gain YTD | -7.99% | FTSE YTD | 5.45% |
| DD Total YTD | <u>-12.07%</u> | Average performance | <u>-9.27%</u> |
| Relative Performance | | <u>-2.80%</u> | |

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

What it says in the 'Sundays'

| Company | Paper | Headline |
|------------|------------------|--|
| SABMiller | S. Times | "Has beer giant lost its fizz?" |
| IAWS | S. Business Post | "European giants target wind energy firm Airtricity" |
| AIB | S. Business Post | "AIB closes Hedge fund unit" |
| Greencore | S. Business Post | "Greencore now a healthy option" |
| AIB | S. Independent | "AIB's plan for Nationwide bid shot down " |
| Greencore | S. Tribune | "May move property assets to form new company" |
| Aer Lingus | S. Tribune | "Good business in Belfast" |

Recent Corporate Visits

| Company | Change on year | Meeting date | Relevant news |
|------------------|----------------|--------------|--|
| Anglo Irish Bank | -25.3% | 29/11/07 | Group CEO David Drumm explained that the bank business model remains protected from the current banking crisis |
| United Drug | -8.7% | 21/11/07 | Group CEO Liam Fitzgerald told us to expect strong double digit revenue growth next year |
| Ryanair | -8.7% | 20/11/07 | Group COO Michael Cawley emphasized the strong further growth potential of the European aviation market. |

Last Weeks Moves

| Equities | Level | Change WTD | Change YTD | Div Yield | P/E |
|--------------|-------|------------|------------|-----------|------|
| ISEQ | 7207 | 8.5% | -23.6% | 2.7% | 10.3 |
| FTSE 100 | 6433 | 2.7% | 3.4% | 3.7% | 12.7 |
| DAX | 7871 | 3.4% | 19.3% | 2.5% | 13.2 |
| DOW JONES | 13387 | 3.0% | 7.3% | 2.2% | 15.9 |
| S&P 500 | 1481 | 2.7% | 4.4% | 2.0% | 16.1 |
| NASDAQ | 2668 | 2.7% | 10.4% | 0.7% | 27.3 |
| EUROSTOXX 50 | 3753 | 3.4% | 1.5% | 3.6% | 12.1 |
| NIKKEI 225 | 15681 | 5.3% | -9.0% | 1.3% | 38.3 |

| Sector | Weekly move% | YTD move % |
|---------------------|--------------|------------|
| Mining | 8.90 | 52.14 |
| Chemicals | 2.19 | 29.40 |
| Tobacco | 1.16 | 28.59 |
| Beverages | 2.65 | 20.08 |
| Telecoms | 0.66 | 16.19 |
| Personal Goods | 1.78 | 14.41 |
| Technology | 7.26 | 13.68 |
| Utilities | 2.74 | 11.83 |
| Autos | 5.80 | 9.29 |
| Oil & Gas | 0.75 | 8.98 |
| Food Producers | 1.87 | 4.43 |
| Construction | 2.31 | 1.13 |
| Leisure Goods | 0.77 | 0.32 |
| Media | 2.27 | -1.61 |
| Pharmaceuticals | 3.78 | -4.31 |
| General Industrials | 2.04 | -7.37 |
| Insurance | 1.61 | -9.09 |
| Software | 2.08 | -16.80 |
| Banks | 8.03 | -16.98 |
| General Retailers | -4.37 | -22.93 |

Commodities

| | Current | Change YTD |
|-----------|---------|------------|
| Crude Oil | \$89.3 | +32.8% |
| Gold spot | \$781.5 | +22.8% |

Exchange Rates

| | Current | YTD Change | Year End (est) |
|---------|---------|------------|----------------|
| EUR-USD | 1.469 | +10.2% | 1.50 |
| EUR-GBP | 0.715 | +5.7% | 0.705 |
| EUR-JPY | 163.0 | +3.6% | 165.0 |

GDP Growth

| | Current | Year End (est) |
|-----------|---------|----------------|
| Ireland | 6.00% | 5.00% |
| Euro Zone | 2.70% | 2.50% |
| UK | 3.00% | 3.00% |

Central Bank Interest Rates

| | Current | 3 month | Year End (est) |
|-----------|---------|---------|----------------|
| Euro Zone | 4.00% | 4.62% | 4.00% |
| UK | 5.75% | 6.45% | 5.75% |
| US | 4.50% | 4.98% | 4.50% |

Credit Market Summary

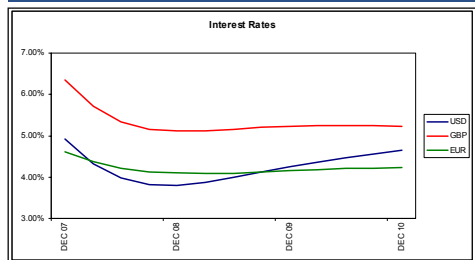
Credit markets followed the leader this week by tracking the equity markets with high yield spreads tightening 9% over the week to 359bps. Pronounced spread tightening started on Tuesday after Fed rate cuts hopes were raised and US bond insurers looked like they might avoid ratings downgrades. This feel good spread tightening was more pronounced in the investment grade (13% tighter) and financial spread (12%) indices. Spreads have tightened despite a plethora of bad news from the US housing market, for that reason we expect spreads may widen back before year end.

Credit Sector Movements

Food/Beverages: Tighter in sector – Compass was the best performer this week, tightening 21% after Moody's revised the rating outlook to stable from negative following the company's improvement in operating performance as reported in the full year results this week. Cadbury's was 11% tighter while Diageo was 2% tighter this week.

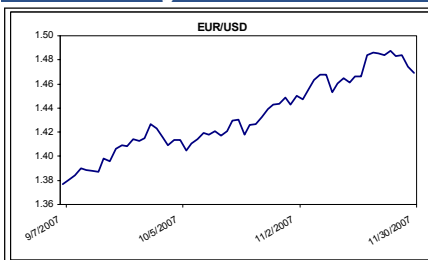
Airlines: Mixed in the sector – airlines saw spreads tighten, lead by British Airways who tightened 10% to 156bps this week after announcing plans to withdraw from bidding for Iberia. Deutsche Lufthansa tightened 12% to 59bps while Rolls Royce widened 1bps (3%) to 35bps. BAA also continued its widening trend this week, another 8bps to 236bps after the 6 notch rating downgrade last week.

Interest Rate Outlook

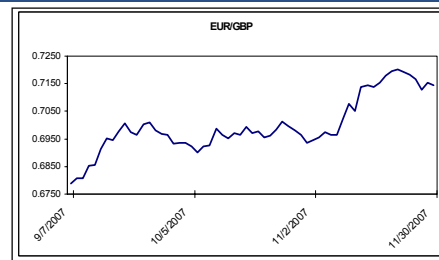


Government bond prices saw sharp price swings last week with US treasury yields hitting three year lows, however finished broadly unchanged on the week as cash returned to equity markets. The US 10-year treasury yield finished the week at 3.94%, while the yield on the 10-year German bund closed at 4.11%.

Currency Comment



The \$ strengthened against the Euro last week gaining over 1% as the market continues to expect the Federal Reserve to lower its benchmark interest rate by a further 25 basis points when it meets on December 11th. The non-farm payrolls number due on Friday will be key for the \$ with a gain of 73,000 expected. If a materially weaker number was to arise, a 50 points reduction in the fed funds rate can't be ruled out.



The Euro remained relatively flat versus sterling last week as both the ECB and Bank of England are set to announce their interest rate decisions on Thursday. Both central banks are expected to remain on hold and 4.00% and 5.75% respectively, however there is growing expectations that the Bank of England may move to cut rates as the market grows increasingly bearish towards the UK economy.



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