

DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

05.03.2007



Dolmen Stockbrokers

Section

1 Market View

05/03/2007

Global equity markets last week suffered their largest short-term declines since May 2006 with European markets recording the heaviest falls. The ISEQ declined by over 6%, with Germany off 5.5% and the FTSE off 4.4% compared to more modest declines in the Dow and S&P of 3.7%.

The catalyst for these declines was initially put down to a 9% fall in the Chinese market, however this by itself was not the cause of the sell-off. A number of factors combined to trigger the decline. Singularly the risk premium to hold certain assets was raised considerably with equity derivative volatility, corporate credit spreads and Japanese rate perceptions all rising.

A warning of a possible US recession by ex-Fed Chairman Greenspan following weak US growth numbers, higher than expected US inflation data, a very weak new home sales figure did little to help.

The weakness in the US sub-prime mortgage market was a particular concern as it highlighted in a most palpable manner US consumer concerns. The US consumer has been the driver of the US economy but with higher bond yields the consumer can refinance to allow further cash releases to drive spending further. US corporates, with a weak dollar will not be able to reduce costs further so further profit growth will be based on revenue growth.

Compounding the matter further were the first signs that the Yen carry trade was starting to be unwound due to continued perceptions of higher Japanese rates. This process triggered a sharp rise in the Yen and focused attention on the pricing of risk in the market. However against this backdrop US bonds rallied and one feels to sustain financing of the US budget deficit will require either higher yields or a weaker dollar.

This review of risk pricing resulted in a large number of leveraged or geared positions being unwound thereby placing intense pressure on all risk assets. This process has continued into trading today and is likely to continue until the market has completed this particular move down.

The question now for investors is how much farther does this move have to go? This is a sentiment not an earnings move so p/e's not earnings are falling but dividend yields are rising. The last correction in markets was in May 2006 when they declined by 10%. We estimate that a fall of similar proportions will occur in the current down move, so with a 6.7% fall in the FTSE from its mid-February high, we anticipate a possible further 3% move lower, at which point we would consider investing. Some leading Irish equities are already in our view in the last few percent of the down move. Our advice is buy into further weakness, focus on liquid large cap stocks and consolidate into fewer positions in large cap stocks. The catalyst for change will be comments from the Fed saying all is not lost, stabilization in corporate credit spreads and re-affirmation of earnings by key large caps with perhaps additional share buy backs.

Current Trading Ideas

Trading ideas	
<p>CRH Last rec @ €32.22 Current: €31.49 Target: €37.00 Stop-loss: €29.20</p>	<p>Tomorrow, CRH will announce its results for the year ended 31/12/06. The consensus forecasts are for profit before tax and earnings per share of €1.58 bn and €2.23 respectively, representing year on year increases of 23% and 19%. The results are likely to show an acceleration in group earnings growth in H2 2006, with its European businesses, Material, Products and Distribution, all showing stronger H2 2006 underlying trading, as well as some operating margin expansion. In the US, the group's 3 divisions are all expected to report strong profit growth, with the passing on of higher input costs helping to achieve operating margin improvement at the US Materials and Products divisions. In January, we upgraded our 2007 and 2008 earnings per share forecasts by c.2% to €2.40 and €2.64 respectively, and our current 12 month price target of €37 is based on 14x 2008 eps of €2.64: BUY.</p>
<p>Morrison Last rec @ £3.05 Current: £2.98 Target: £3.30 Stop-loss: £2.73</p>	<p>In conjunction with the announcement of its results for the year ended 29/01/07 on Thursday week, 15th March, Morrison, the UK supermarket, will present a strategic review of its balance sheet. The consensus forecasts are that full year profit before tax and eps of £318m and 8.2p respectively will be announced, representing major year on year increases on the prior year comparatives of £54m and 4.39p. However, given the major freehold property assets owned by Morrison (95% of stores), and its very under-geared balance sheet, there is significant potential for the upcoming review of the group's balance sheet to act as a positive catalyst for the share price. Following the recent private equity takeover approach for Sainsbury, there is now greater pressure for existing management to unlock such property value. The fact that a new management team has recently taken over at Morrison may also make it more likely for a radical balance sheet review to be presented at the full year results' announcement. Based on current forecasts for cash flow from operations, Morrison would be debt free within 2 years. Morrison's cashflows could comfortably support a debt level representing 50% of the value of its freehold property portfolio. Using the proceeds of such a debt issue to buy back shares at £3.20 each would lower the group's cost of capital and could boost the group's forward eps (for the year ending 31/01/09) by 20% from 18p to 22p. As a result, our current 12-month price target for Morrison of £3.30 is based on 15x forward eps of 22p: BUY.</p>

<p>FBD Last rec @ €42.60 Current: €40.40 Target: €48.00 Stop-loss: €35.00</p>	<p>On Wednesday, FBD will announce its results for the year ended 31/12/06. The consensus forecasts are for profit before tax (pbt) and eps of €250m and €3.70 respectively, representing year on year increases of 35% and 2%. The reason for the major difference between the pbt and eps results is a major exceptional profit generated from the sale of Spanish property. Even though the group's 2006 underwriting result is expected to be weaker year on year as a result of lower premiums from increased competition, a trend which is likely to continue for 2007, FBD's substantial surplus capital position creates further share price upside potential. When account is taken of the value of the group's insurance business surplus claims reserves of c.€150m, and the group's additional surplus capital of €250m, even after allocating €100m of capital for the group's property business, a fair value per share estimate of €48 can be calculated. This is as a result of capital representing only 50% of net earned premiums being required to fund the group's insurance business (c.€180m), and because year end 2007 group shareholder' funds is forecast to be c.€550m : BUY.</p>
<p>RBS Last rec @ £20.09 Current: £20.76 Target: £22.50 Stop-loss: £20.00</p>	<p>Royal Bank of Scotland's results for the year ended 31/12/06 of profit before tax and earnings per share of £9.41 bn and £2 respectively, were ahead of the consensus forecasts of £9.35 bn and £1.95, and were both year on year increases of 14%, helped by a particularly strong performance from the group's Global Banking and Markets division. The main surprise was that the full year dividend per share was increased by 25% to 90.6p, after the bank's shareholders expressed a preference for capital to be returned to them through increased dividends. As a result, the group's payout ratio was increased to 45%, resulting in a final dividend of 66.4p (3.2% yield) going ex this Wednesday and being paid on 08/06. Crucially the rate of growth in UK retail bad debts, primarily unsecured, slowed to 11% in H2 2006, from 18% in H1 2006, helped by RBS' lower than sector average exposure to UK unsecured personal lending of c.7% of global loan book. The group's full year net interest margin of 2.47% also showed some improvement on the H1 2006 comparative of 2.45%. Following these results, the consensus forecast for 2007 eps should rise to c.£2.15, representing further 8% growth on the 2006 result of £2. As a result, our current 12 month target of £22.50 (12% further upside), only rates the shares at a sector average multiple of 10.5x consensus 2007 eps of £2.15, and when combined with a 2007 dividend yield of c.4.8%, this provides an attractive total return from current levels: BUY.</p>
<p>Aviva Last rec @ £7.80 Current: £7.77 Target: £9.00 Stop-loss: £7.00</p>	<p>Aviva reported full year gross operating profit of £3.245 bn for the year ended 31/12/06, a year on year increase of 12%. However, not helped by a very weak equity market backdrop, the market chose to focus on the fact that the result was £55m (c.2%) lower than the consensus forecast of £3.3 bn. The main driver of the growth was the 16% growth in life and pension premiums to £26.852 bn. However, the 5% share price fall on the day of the results' announcement would appear to have been an over-reaction to such a 2% miss, and the group's upbeat outlook for relatively strong 2007 UK sales growth and improving non-UK life margins would not appear to be fairly discounted now by the group's current share price. Aviva is guiding further strong 15% sales growth for 2007, driven by particularly strong international sales growth. This international sales growth will be boosted by the group's August 2006 acquisition of US life insurer, AmerUs Group, for \$2.9 bn in cash, with the initial contribution of AmerUS to the group's 2006 sales results showing 21% year on year growth, helped by the introduction of new products. Despite this US expansion, Aviva remains committed to growing its dividend, last week announcing a 10% increase in its 2006 dividend per share to 30p. Further 10% growth in 2007 to 33p would provide a 2007 dividend yield of c.4.3% on the current share price. The final dividend per share of 19.18p (2.5% yield) goes ex this Wednesday. 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 (15% upside) would rate the shares at 1.6x 2006 EV per share of £5.73, a 7% premium to the current sector average: BUY.</p>
<p>AIB Last rec @ €23.25 Current: €21.69 Target: €24.00 Stop-loss: €20.50</p>	<p>Tomorrow, AIB will announce its results for the year ended 31/12/06. The consensus forecasts are for profit before tax and earnings per share of €2.2 bn and €1.80 respectively, representing year on year increases of 29% and 23%. The strong earnings growth will be driven by loan growth of 30%, 20% and 15% in Ireland, the UK and Capital Markets, offset by group margin erosion of c.0.18% to 2.2%. Group credit quality is expected to remain robust, with a bad debts charge of c.0.13% of overall average loans. The group's US and Polish businesses have already reported 2006 net income growth of 7% and 47% respectively to \$839m and PLN 758.2m. Our current 12 month price target of €24 values the group's core Irish, UK and Capital Markets operations at a European sector average rating of 12x 2006 earnings, and the group's US and Polish businesses at their current market values: BUY.</p>

Dolmen Dozen Weekly Update

Company	Change on week	Relevant news
AIB	-7.51%	Ahead of the group's full year results due to be announced tomorrow.
Aviva	-7.50%	After last week's 2006 results came in c.2% lower than expected.
BHP Billiton	-9.39%	As last week's market sell off hit the mining sector particularly hard.
BP	-3.36%	As the group continued to buyback and cancel large amounts of its own shares.
British Land	-9.66%	Following the recent announcement of a NAV per share of £16.85 as at 31/12/06.
CRH	-4.92%	Ahead of the group's full year results due to be announced tomorrow.
Greencore	-0.44%	After it was reported that 3.3m Greencore shares recently changed hands.
GSK	-2.28%	Following the recent release of stronger than expected 2007 earnings growth guidance.
INWS	-9.22%	Following the recent announcement of very solid circulation figures from the group's Irish titles.
RBS	-1.80%	After the group last week increased its full year dividend by a greater than expected 25%.
Ryanair	-8.43%	Following the recent release of stronger than expected Q3 results.
Vodafone	-4.79%	Following the recent successful acquisition of a 67% stake in Indian mobile group, Hutchinson Essar, for \$11.1 bn.

Other Trading Ideas

Date of Rec	Company	Price (at time of Rec)	Last Close	Source	Analyst	Target Price
12-Feb	AIB	23.25	21.69	Weekly	SD	24.00
02-Feb	Anglo Irish Bank	16.05	15.40	Daily	SD	17.50
07-Feb	BHP Billiton	9.86	10.03	Daily	SD	11.50
06-Feb	BP	5.32	5.16	Daily	SD	6.00
26-Feb	C&C	11.82	10.05	Weekly	SD	13.00
12-Feb	CRH	32.22	31.49	Weekly	SD	34.00
19-Feb	DCC	27.30	25.54	Weekly	SD	28.00
26-Feb	Grafton	12.79	11.80	Weekly	SD	14.00
20-Dec	Greencore	4.45	4.54	Daily	SD	4.80
04-Dec	INWS	2.60	3.15	Daily	SD	3.30
28-Feb	Irish Life & Permanent	21.50	20.66	Daily	SD	23.00
27-Feb	Kerry	20.46	20.50	Daily	SD	23.00
05-Feb	Ryanair	5.61	5.65	Daily	SD	6.50
08-Jan	Tullow Oil	3.70	5.45	Daily	SD	4.20
19-Feb	United Drug	3.97	3.77	Weekly	SD	4.40
12-Feb	Vodafone	1.49	1.39	Daily	SD	1.60

Sunday Papers

Paper	Company	Comment
Sunday Times	C&C	gives hints of share buyback to cheer investors
Sunday Times	Kingspan	Hold
Sunday Times	Tullow	Taps full rewards
SBP	Halifax	Halifax to launch new high-interest account.
SBP	Irish Banks	Glowing results for banks.
SBP	Grafton	Chadwick bides his time on Grafton property sale.
Sunday Independent	Greencore	Bitter blow for Greencore as €1 bn plan hit

Economic Calendar

Date	Region	Event	Period	Consensus	Prior
06/03/07	US	ISM Non-Manufacturing	FEB	57	59
06/03/07	US	Nonfarm Productivity	4Q F	1.50%	3.00%
06/03/07	CA	Building Permits MoM	JAN	1.70%	-7.80%
06/03/07	US	Unit Labor Costs	4Q F	3.20%	1.70%
06/03/07	US	Pending Home Sales MoM	JAN	-1.40%	4.90%
06/03/07	US	Factory Orders	JAN	-4.50%	2.40%
07/03/07	US	ADP Employment Change	FEB	100K	152K
07/03/07	US	Fed's Beige Book			
08/03/07	UK	BOE ANNOUNCES RATES	Mar-08	5.25%	5.25%
08/03/07	EC	ECB Announces Interest Rates	MAR	3.75%	3.50%
09/03/07	UK	Industrial Production (MoM)	JAN	0.20%	-0.10%
09/03/07	UK	Industrial Production (YoY)	JAN	0.50%	0.40%
09/03/07	UK	Manufacturing Production (MoM)	JAN	0.20%	0.20%
09/03/07	UK	Manufacturing Production (YoY)	JAN	2.40%	2.30%
09/03/07	US	Trade Balance	JAN	-\$59.6B	-\$61.2B
09/03/07	US	Change in Nonfarm Payrolls	FEB	100k	111k
09/03/07	US	Unemployment Rate	FEB	4.60%	4.60%
09/03/07	US	Wholesale Inventories	JAN	0.10%	-0.50%

Corporate Calendar

Date	Region	Company	Event
05/03/2007	GB	William Hill	FY Results
05/03/2007	GB	British Airways	February traffic & capacity statistics
05/03/2007	GB	HSBC Holdings	FY Results
05/03/2007	IRE	Kingspan	FY Results
05/03/2007	IRE	Paddy Power	FY Results
06/03/2007	GB	Xstrata	FY Results
06/03/2007	IRE	Allied Irish Bank	FY Results
06/03/2007	IRE	CRH	FY Results
06/03/2007	IRE	Trinity Biotech	FY Results
07/03/2007	IRE	Dragon Oil	FY Results
07/03/2007	IRE	FBD	FY Results
07/03/2007	IRE	Glanbia	FY Results
08/03/2007	GB	Royal & Sun Alliance	FY Results
08/03/2007	IRE	Irish Continental Group	FY Results

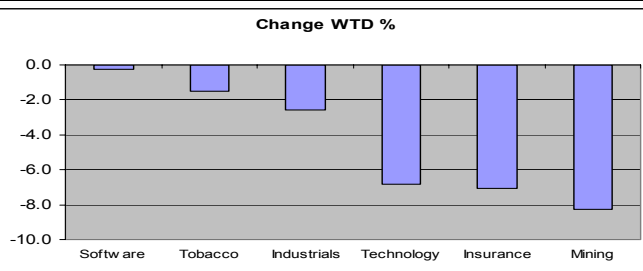
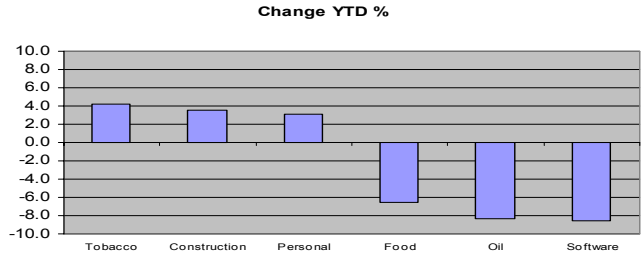
Chart View

Chart	Trend	Comment	Key Support	Second Support	Key Resist	Second Resist	Current Position	Recent Position
Iseq	Up	Trend remains- current circa 9000 level important - 10% correction now.	9000	8000	9800	9520	No position	No position
Ftse100	Up	The breach of 6000-6100 is concerning but Ftse tends to fill gaps and one above at 6225.	5890	5720	6225		Buy @ 5998, 5800 with 5690 stop	No position
Nasdaq	Sideways	Very oversold on daily basis- may find a base at close to current levels	1710		1765	1860	Long @ 1710 with 1700 stop	Long 1 lot @ 1807 sold @ 1843
Dax	Up	Trading poorly with little support until 6340/6150	6350	6150	6600		No position	Short 1 @ 6899, stop @ 6965
Dow	Up	Some support at 12,000. Below this 11,300- Very oversold on daily chart	12000	11300	12350		No position	Buy order @12650, stopped @ 12500
Euro/USD	Up	Looks like will eventually break higher medium term but look for better entry level first	1.298	1.282	1.325		Buy order @ 1.2930, stop @ 1.2750	Short @ 1.3020 closed out at 1.2968
Euro/GBP							Short 2 lots @ 0.6750, stop @0.6825	Short @ 0.6625 stopped 0.6660
Bunds							No position	Long at 114.97 took profit @ 116.00
Oil							No position	Short 1 lots @ 55 stopped @ 61 stop
Vodafone							No position	Long @ 144,142 stopped @138
Lloyds							Short @ 5.90, stop at 6.25	Short @ 5.98:stopped @ 6.20
BHP							No position	Short @ 11.01 took profit @ 10.265
Tullow							Long at 3.90 stop at 360	Short @ 408, took profits @ 3.87
Anglo							No Position	Long @ 15.60 took profit @ 16.30
C&C							No Position	Long @11.56, closed at 11.69
Ryanair							Sell order at 6.35 with 6.60 stop	No position
AIB							No Position	Long @ 23 stopped 22.40
BOI							No Position	Long at 18 stopped 17.40
CRH							No Position	Long @ 33 and @ 32.50 stopped 31.50 stop
Prudential							No Position	Long @ 6.95 stopped @ 6.75
BP							No Position	No Position
Aviva							No Position	Long @ 8.435 stopped 8.10

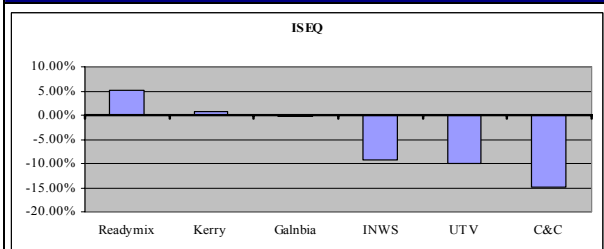
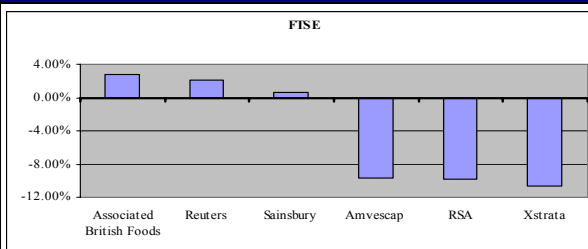
Last Week's Moves

	Levels	Last week's moves	YTD Move
Equities			
DJ INDUS. AVG	12214.4	-3.50%	-2.07%
S&P 500	1399.14	-3.65%	-1.42%
NASDAQ	2394.95	-4.85%	-0.92%
DJ	3613.03	-5.34%	-2.28%
FTSE 100	6116.2	-4.46%	-1.68%
DAX	6603.316	-5.57%	0.10%
ISEQ	9256.09	-6.59%	-1.61%

	Div Yield- 2007	EPS Growth 2007	P/E-2006	P/E-2007
ISEQ	2.45%	8.7%	15.61	13.97
UK	3.70%	6.78 %	13.71	12.84
US	2.03%	6.62%	16.62	15.61
Euro	3.46%	6.25%	13.26	12.48

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Tobacco	-1.51	4.26	
Construction	-6.17	3.51	
Personal Goods	-5.44	3.14	
Media	-3.76	2.87	
Chemicals	-4.49	2.48	
Autos	-6.04	2.26	
General Retailers	-3.05	0.74	
Pharmaceuticals	-3.60	0.11	
Mining	-8.28	-1.86	
Banks	-5.79	-2.77	
Telecoms	-6.57	-2.81	
Industrials	-2.58	-2.85	
Leisure Goods	-6.66	-3.43	
Insurance	-7.04	-3.86	
Beverages	-4.64	-4.05	
Utilities	-4.76	-4.25	
Technology	-6.80	-4.64	
Food Producers	-3.56	-6.61	
Oil & Gas	-3.74	-8.29	
Software	-0.25	-8.51	

Best/Worst Performers 26/2/07 – 2/3/07

ISEQ	FTSE
	

On what should have been a good week for the Irish market with Kerry, McInerney, Irish Life & Permanent and Grafton all posting better than expected results, world events conspired to wipe c.€8bn off the market. The biggest faller was C&C which released a trading statement on Wednesday that was slightly below market expectations despite full year turnover growth for Magners been c.225%. The other main fallers were the banks with both AIB and Bank of Ireland down over 7%.

Mining shares comprised seven of the ten biggest fallers on the index on Tuesday, reversing a recent strong run. London's top index lost nearly 150 points after a sell-off in the mining sector, with a steep drop in the Chinese market also hurting broader sentiment. Shares of Rio Tinto, BHP Billiton and Anglo American declined more than 4.7% in the top index. UK stocks slumped again on Wednesday with banking group HBOS among the biggest fallers. On Thursday UK stocks closed down for the third consecutive session, as concerns about a rapid rise in the Japanese yen and a warning from a US lender offset well-received earnings from British companies, including banking giant Royal Bank of Scotland.

Section

3

Commodity, Currency & Credit Markets

	Current			YTD Change		
	EURO	GBP	USD	EUR	GBP	USD
Base Rate	3.50%	5.25%	5.25%	0.00%	0.25%	0.00%
3 Month	3.86%	5.53%	4.95%	0.08%	0.18%	0.08%
12 Month	4.05%	5.75%	4.81%	0.12%	0.10%	0.19%
5 Year	3.85%	5.12%	4.47%	-0.07%	-0.02%	-0.23%
10 Year	3.93%	4.78%	4.53%	-0.01%	0.03%	-0.18%
CRUDE OIL FUTR Mar 07	62.01			-2.26%		
NAT GAS FUTR Mar 07	7.31			10.71%		
GOLD SPOT \$/OZ	647.27			1.69%		
SILVER SPOT \$/OZ	12.925			0.62%		
LME ALUMINUM 3MO (\$)	2795			-0.29%		
LME COPPER 3MO (\$)	6110			-3.48%		

Exchange Rates

	Current	YTD change	Year End Forecasts
EUR-USD X-RATE	1.31785	-0.13%	1.350
EUR-GBP X-RATE	0.67715	0.57%	0.665
EUR-JPY X-RATE	154.05	-2.03%	145.000

Forecast 2007

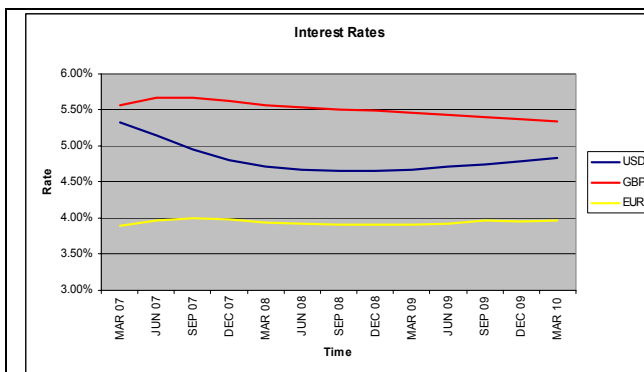
GDP	Current	2007(e)
Ireland	7.70%	6.00%
Euro Zone	2.70%	2.50%
UK	2.90%	3.00%
US	3.00%	2.00%

Central Bank Interest Rates	Current	2007(e)
Ireland	3.50%	3.75%
Euro Zone	3.50%	3.75%
UK	5.00%	5.25%
US	5.25%	4.75%

Inflation	Current	2007(e)
Ireland	4.40%	5.50%
Euro Zone	1.90%	2.10%
UK	2.70%	2.90%
US	2.00%	1.20%

10 Year Bond Yields	Current	2007(e)
Ireland	4.01%	3.65%
Euro Zone	4.01%	3.65%
UK	4.81%	4.50%
US	4.69%	4.35%

Bund Comment

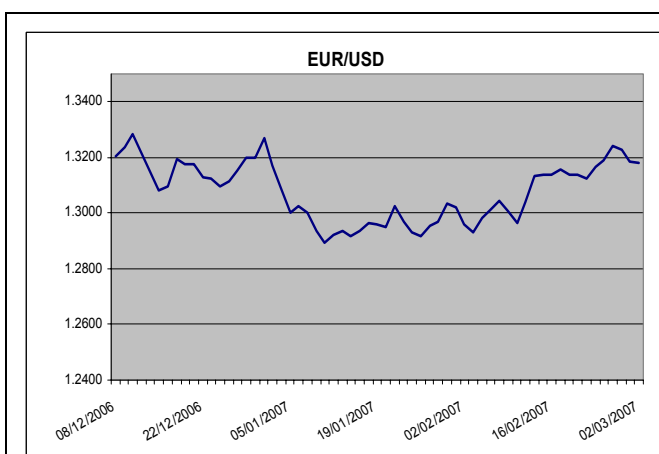


Comment:

European bonds racked up the biggest weekly gain in almost two years as a plunge in global equity markets led investors to seek the safety of government bonds. Ten-year yields fell from 4.043 to close at 3.93 on the week. European debt has also benefited as investors exited emerging and credit markets amid speculation prices of these assets may be overstretched.

Fundamentally however we believe bonds don't represent value as the ECB is still expect to raise rates to 4% this year

Currency Comment

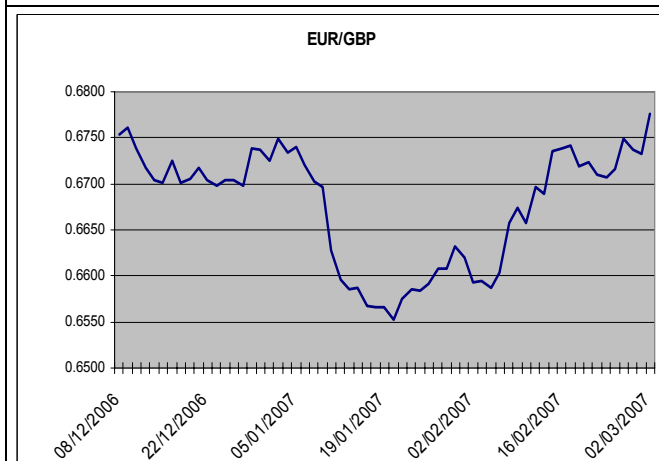


Comment: EUR/USD

The funding currencies, Japanese Yen and Swiss Franc, rose sharply across the board last week as massive unwinding of carry trade positions on risk aversion in emerging markets, in particular after China's stock market crash. EUR/USD rose slightly on the week closing at 1.3192 having reached a high of 1.3259 last Tuesday on the back of a very weak US durable goods and new home sales numbers.

While carry trade will continue to remain the dominant theme of the markets this week, there are some important economic events that will likely trigger further volatility. The US economic calendar will start with ISM non-manufacturing index on Monday, which is expected to retreat slightly from 59.0 to 58.0 in Feb. However, much focus should be on Tuesday's Q4 labour costs revision and Friday's Non-Farm Payroll and Trade Balance.

We expect the USD to remain weak as the US data is expected to be mixed at best.



Comment: EUR/GBP

GBP weakened across the board last week as it to the brunt of the unwinding carry trade positions. This forced GBP lower against the Euro without any major fundamental news driving the price action. The Euro rose to .6787 from .6707 the previous week.

ECB meeting will be the main even in Eurozone. ECB is widely expected to raise rate by 25bps in 3.75%. Focus will, again, be on the press conference. Focus will be on Trichet's comment on the inflation outlook, in particular, with inflation remaining below ECB's 2% target. There are some possibilities that ECB will revise down the inflation forecast.

BoE is widely expected to keep rates unchanged at 5.25% and hence the meeting will likely be a non-event. But still there are some important economic data scheduled to be released.

Short term we continue to like the Euro against GBP.

Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Current Yield	
AAA	Rabobank	3.65%	4.18%	<p>This week the credit markets were directly linked to equities with nervous investors pushing the high yield index down 20% and the investment grade index down 9% - reflecting the bigger moves in credit compared to equity. We expect credit markets will continue to closely track equities reflecting the fact that this is not necessarily a change in sentiment in the credit markets but rather a correction to the overzealous tightening in the first 2 months of 2007.</p> <p>*ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market</p>
AA	Deutsche Bank	3.95%	4.32%	
A	Tesco	3.83%	4.29%	
BBB	MKS	5.30%	5.85%	
BB	Royal Caribbean Cruise lines	5.73%	5.99%	

Sector Movements in week ended 23/02/2007:

- Automotive:** Mixed in the sector – it was a mixed bag for the autos with BMW widening 1bps, despite reporting a 12% increase in February car sales in the US; DCX widened 2bps as the automaker reported an 8.4% decline in February sales, only 1% of which was attributed to the Mercedes-Benz brand. Renault also widened 1bps this week after announcing a 7.9% drop in February sales in the US and reporting its partner Nissan saw a 14% drop in French car sales. Peugeot and VW were unchanged this week. Elsewhere GM and Ford both widened this week – GM reported a surprising increase in US truck sales this week however the market was more concerned by GMAC's interest in the ResCap subsidiary which has considerable exposure to distressed US sub-prime loans. GMAC widened 35bps or 34% over the week to 138bps. Ford on the other hand reported a further drop in US car sales however the spreads were less stressed, widening only 36bps or 15% to 281bps.
- Building materials:** Mixed in the sector – LaFarge widened 1bps this week, while Heidelberg widened 2bps on reports a court has allowed price fixing proceedings to go ahead against both Heidelberg and Holcim, damages could amount to an estimated €114m. Elsewhere Pilkington and Saint Gobain were unchanged.
- Chemicals:** Quiet in the sector – Bayer was unchanged despite announcing 6,100 job reductions worldwide in its healthcare division. BASF was unchanged also.
- Airlines:** Volatile in the sector – both Lufthansa and British Airways widened this week, LHA widened 3bps however BA was 15bps wider on what appears to be continued speculation that the airline may bid for Iberia. Elsewhere Rolls Royce and BAE systems are unchanged.
- Food/Beverages:** Wider in the sector – Cadbury's widened 1bps this week while Diageo saw a 3bps widening, essentially correcting overzealous tightening seen in the name in the past number of weeks. Compass also widened 1bps this week, continuing the widening trend seen in this name. Compass has widened 26% since the start of the year.
- Telecoms:** Mixed in the sector – Deutsche Telecom widened 1bps this week, a subdued reaction given the company announced its first loss in 2 years after 500,000 customers defected to the competition and redundancy costs were higher than anticipated. BT also widened 1bps while Vodafone was unchanged over the week.
- Retail:** Wider across the sector – Sainsbury's widened another 8bps, now 300% wider over the past month, while one of its suitors, MKS, widened 2bps this week. MKS announced this week that they are not currently in a position to bid, leaving the way clear for private equity. Other UK retailers widening this week were Dixons and Boots 1bps wider each and GUS and Kingfisher 2bps wider each.
- Media:** Mixed in the sector – EMI widened 29bps this week, as spreads are seen to be reflective of LBO risk rather than a takeover or merger with Warner music given the EU regulators 'in-depth' investigation into EMI's peer merger of Sony Bertelsmann. WPP also widened 1bps this week while Reuters was unchanged despite a ratings downgrade by Moody's following the announcement of shareholder friendly initiatives.

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