DOLMEN STOCKBROKERS

Traders Update

MONDAY 5TH NOVEMBER 2007

Market Comment

Be careful what you wish for. That was the lesson for equity markets last week as the much-sought 25 basis point cut in the Fed Funds Rate was duly delivered, but the equity indices all managed to finish lower than the pre-announcement levels. The reality for markets is that while the lower Fed Funds rate is beneficial for Main St USA, it is not necessarily the panacea for the current woes weighing on Wall St. and global markets in general. These woes specifically involve the banks, mortgage providers and all those carrying toxic sub-prime related debt. Money market liquidity remains tight and this has led to a series of broker downgrades for banking giant Citigroup as well as a plethora of rumours about other financial houses. The difficulty for markets continues to be that while in general non-interest rate sensitive stocks continue to report relatively robust numbers, the heavy financial weighting in the ISEQ (42%), FTSE(30%) and DOW (12%) continue to act as a significant drag on market performance.

While there was some good news in the data release last Friday with US jobs data recording another surprise number, this time to the up-side, earlier data releases during the week saw a fall in personal consumption and a fall in consumer confidence, all supporting the latest rate cut. A higher than expected inflation reading and a continued surge in oil, do little to support further Fed easing a fact that equity markets may struggle to cope with.

TRADING IDEAS, EARNINGS & PREVIEWS

HP

Current Price : $52.40
Target : $59.00
P/E 08 : 16x
Div 08 : 0.80%
Next Event : 19/11/07

BUY

On 19/11/07, Hewlett-Packard is due to release its 4Q results for the period ending 31/10/07. The group is expected to report a 21% rise in EPS to $0.82, while revenue is expected to show an 11% increase to $27.4bn. Gross margin is also forecasted to remain stable at 24%. Recent results from large cap technology stocks have been extremely strong and HP should also be able to replicate this trend. Microsoft's recent 1Q results showed that its two largest divisions Microsoft Business and Client posted sales growth in excess of 20% driven by robust for Windows Vista and Servers and as a result Microsoft raised its FY08 earnings guidance. Intel also produced a strong set of results for its third quarter and like Microsoft, the company's guidance also came in ahead of expectations due to strong demand for PCs and notebooks, which should provide a natural read-across for HP. With strong demand for PCs expected to continue for the foreseeable future we would expect HP to post results that beat expectations and also issue a positive outlook for 2008. Another name that we also like going into its third quarter results on 29/11/07 is HP's largest competitor Dell.

BA

Current : £4.18
P/E 07 : 7.8x
Div 07 : 2.2%
Price Target : £6.00

BUY

Last Friday, British Airways (BA) reported a 26% increase in 1H EBIT to £556m and slightly above the £550m consensus. Revenue was broadly in line with last year at £4.46bn, while the group's operating margin rose to 12.5% from 9.8% last year. While BA did lower its overall revenue growth target for the year to 3%-3.5% from 4% previously due to the weakness in the US dollar, the company reiterated its operating margin target of 10%. Two key highlights from the group's results were its positive performance at its premium travel division, which saw revenue rise by 2.5%, while costs were £150m lower, with unit costs falling by 2.6%. BA also confirmed that if it its meets its full-year operating margin target it will resume dividend payments which should be achievable given that 1H operating margin came in at 12.5%. What should also be a positive catalyst for BA over the next few weeks is that the TPG led consortium (which BA is a member) expects to make a formal offer for Iberia airlines and should the bid be accepted could provide BA with earnings upgrades following increased operational synergies with the Spanish airline.

Ladbrokes

Current : £4.02
P/E 08 : 12.2x
Div 08 : 3.5%
Next Event : 15/11/07
Price Target : £4.80

BUY

On Thursday the 15/11/07 Ladbrokes will release a trading statement. We are expecting the company to confirm that it is trading in line with expectations and state that it is confident of meeting full year guidance. In recent weeks Partygaming, 888 and Sportingbet have all release positive results with strong emphasis been put on the strength of the sports betting books, this along with what should have been a positive Rugby World Cup augurs well for the company. Ladbrokes can also look forward to longer winter opening hours plus an increase in the Payout of FOBT to £500. Therefore we feel that the current weakness in the share price that that this may be a good time to switch from Paddy Power into Ladbrokes. Although we like Paddy Power and see it as a good long term buy it is currently trading at 23 times final year earnings, compared to peer multiples of 12x earnings. It is also trading at a 5% premium to our 12 month price target of €26, while we see c.20% upside to Ladbrokes shares price from current levels.

CRH

Current : €25.25
P/E 07 : 9.77x
Div 07 : 2.5%
Next Event: 03/01/07
Price Target : €40.00

BUY

Last week US construction figures for September came in better than expected +0.3% mom compared to consensus of –0.5%. The growth was driven by strength in the non residential sector +1.9% mom and infrastructure +1.9% mom. These figures were hampered by a weak housing figure –1.4% mom. With **CRH** US divisions split between 30% residential, 35% non-residential and 35% infrastructure this implies that its markets are growing by c.5% yoy. A number of CRH's peers are also expected to report earnings this week – Vinci, HeidelberdCement , Lafarge and Eiffage are all reporting. In the last reporting season these companies all posted positive results and we are expecting a similar result this time round. CRH recently confirmed that it has the debt capacity to finance any acquisition of the US and European assets of Mexican cement maker, Cemex, currently under negotiation. Only c.8% of its total group operating profit is exposed to US new housing, and our current 12 month share price target of €40 is based on 14.3x 2008 eps of €2.80. Attached below is a table showing how CRH is currently trading at a discount to its US and European peers on a P/E and an EV:EBITDA basis.

Company	Current Price	Market Cap (m)	Change YTD	P/E 07	P/E 08	EV: EBITDA 07	EV: EBITDA 08	Dividend Yield
CRH	€25.25	€13,789	-21.1%	9.78	9.03	6.42	5.97	2.51%
Lafarge	€108.20	€18,749	-4.5%	11.54	10.45	7.34	6.70	3.01%
Holcim	CHF127.60	CHF32,272	14.0%	12.90	12.69	5.85	5.76	1.79%
HeidelbergCement	€108.94	€13,073	-1.8%	8.37	11.17	7.25	6.16	1.39%
Martin Marietta	$124.4	$5207	19.7%	19.75	16.99	9.83	8.75	1.00%
Vulcan Materials	$82.8	$7914	-7.8%	16.68	15.22	8.31	6.92	2.19%

Week's Events

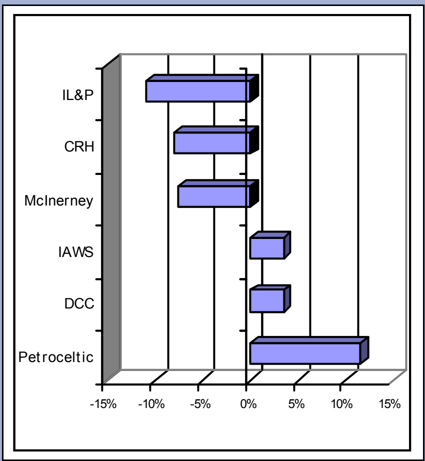
EARNINGS: Mon (Ryanair, H1) Tues (Vestas Wind, Q3) (Vinci, Q3) (BMW, I) (HeidelbergCement, I) (Puma, Q3) (Associated British Foods, FY) (M&S, H1) Wed (Carlsberg, Q3) (Soc Gen, Q3) (Total, Q3) Thur (InBev, Q3) (BNP, Q3) (Lafarge, Q3) (Adidas, Q3) (Waterford Wedgwood, H1) (BT, H1) (Carphone Warehouse, H1) (Dairy Crest, H1) Fri (Deutsche Lufthansa, Traffic)

ECONOMIC DATA: Monday (UK Industrial Production, US ISM Non-Manufacturing), Tuesday (Euro-Zone PMI, PPI, Retail Sales), Wednesday (Nonfarm Productivity, Unit Labor Costs, Wholesale inventories), Thursday (BoE and ECB Interest Rated decisions, US Jobless Claims), Friday (US Trade Balance, Import Prices, Michigan Confidence).

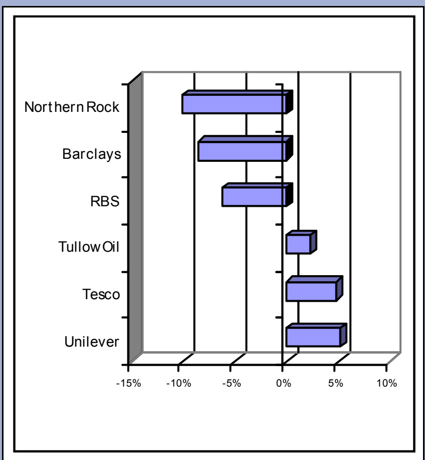
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/ Worst Performers
26/10/07-02/11/07

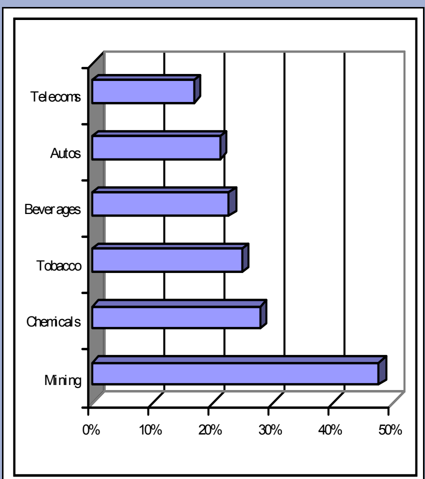
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	DD Return*	Relevant news
AIB	-3.5%	-25.4%	M&T bank announced Q3 results with eps of $1.92 c.1% below market consensus forecast of $1.94
Aviva	+1.0%	-3.9%	Aviva is aiming to cut costs by £350m by the end of 09 in a move that could lead to further job cuts
BP	-0.3%	+16.5%	Announced results recently with underlying replacement cost net profit 2% ahead of consensus
CRH	-7.9%	-16.9%	A number of European peers are announcing results this week
Greencore	+1.7%	+6.8%	Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations
GSK	-1.5%	-3.6%	Recently announced Q3 results with EPS of 23.7p, c.1% below consensus forecasts
IL&P	-10.9%	-18.0%	Continued weakness due to its large exposure to the Irish housing market
Ladbrokes	-4.3%	+2.4%	Partygaming and 888 both posted strong quarterly results
RBS	-6.3%	-22.3%	Its offer for ABN has gone unconditional
Ryanair	+1.2%	+8.0%	Ryanairs Q2 results beat expectations and raise full year guidance
SAP	-1.5%	-13.0%	Announced that it will not bid for BAE systems following Oracle withdrawal last week
Vodafone	-5.2%	+35.8%	Reported that it is the front runner to acquire Telekom Malaysia

DD Unrealised gain YTD	-1.98%	ISEQ YTD	-18.77%
DD Realised gain YTD	-2.78%	FTSE YTD	6.97%
DD Total YTD	-4.76%	Average performance	-5.90%

Relative Performance 1.14%

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

What it says in the 'Sundays'

Company	Paper	Headline
Kingfisher	**Sunday Times**	"Kingfisher takes a dive"
Citigroup	**Sunday Times**	"Prince exit to crown bank woes "
Smith & Nephew	**Sunday Times**	"Medical expert survives trauma "
Glanbia	**Sunday Independent**	"Glanbia is riding on a Dairy boom"
Anglo Irish Bank	**Sunday Independent**	"Foreign sales hit Anglo"
Google	**Sunday Tribune**	"Just a little evil"

Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
IAWS	-17.0%	28/09/07	CEO Owen Cillian said that the company will be force to put through food price increases
Irish Life	-33.0%	11/09/07	Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins
FBD	-33.3%	07/09/07	FBD's CEO Philip Fitzsimons told us that he expects the group to increase its share of the Dublin motor insurance market.

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E
ISEQ	7635	-2.9%	-18.8%	2.5%	11.7
FTSE	6531	-2.0%	5.0%	3.6%	13.4
DAX I	7839	-1.3%	18.9%	2.5%	13.9
DOW JONES	13564	-1.7%	8.9%	2.2%	16.2
S&P 500	1508	-1.7%	6.4%	1.9%	17.7
NASDAQ	2808	+0.2%	16.3%	0.7%	40.7
EUROSTOXX 50	3783	-1.6%	2.3%	3.6%	12.8
NIKKEI 225	16517	+0.1%	-4.1%	1.2%	31.7

Sector

Sector	Weekly move%	YTD move %
Mining	-3.3	47.5
Chemicals	-1.9	27.8
Tobacco	-1.1	23.4
Beverages	+0.3	22.6
Autos	-0.5	21.3
Telecoms	-1.6	16.9
Technology	-2.6	16.7
Personal Goods	-0.5	13.4
Oil & Gas	-1.6	9.7
Utilities	-0.5	6.7
Construction	-3.1	5.2
Media	-0.6	3.8
Food Producers	+0.6	3.4
Leisure Goods	+1.0	1.4
General Industrials	-1.9	0.7
Insurance	-0.5	-3.0
Pharmaceuticals	-0.5	-6.6
Software	-1.3	-10.4
General Retailers	-0.3	-10.5
Banks	-2.9	-16.2

Commodities

	Current	Change YTD
Crude Oil	$95.3	+42.8%
Gold spot	$802.1	+26.2%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.449	+9.0%	1.42
EUR-GBP	0.695	+3.1%	0.705
EUR-JPY	166.5	+5.7%	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%	4.59%	4.00%
UK	5.75%	6.28%	5.75%
US	4.50%	4.88%	4.50%

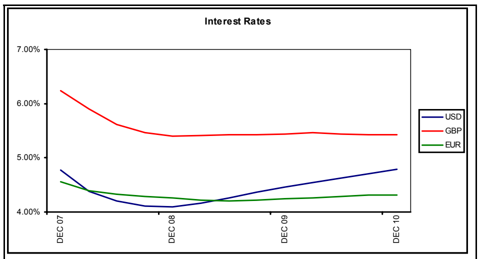
Credit Market Summary

High yield spreads widened again this week, +24bps (7.6%) to end at 350bps. However the bigger move was seen in financial risk where spreads moved 16bps (50%) to 49bps, a significant move as financial risk is now trading higher than investment grade corporate risk, which is languishing at a respectable 44bps – 11% lower – which means the default risk at banks is now greater than the risk to corporations to which they lend. High yield spreads are expected to reach 400bps in the very near term; 50bps on investment grade and 60bps on financial sector.

Credit Sector Movements

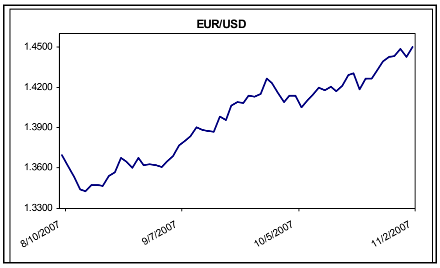
Chemicals: Bayer and BASF widened 4bps (16%) and 5bps (29%) this week despite industry projections of strong Q4 sales, underpinned by demand for specialty and cosmetic chemicals. ICI and Akzo also widened, ICI +9% while Akzo +22% after ICI reported strong Q3 earnings, and projected Q4 and FY earnings will be ahead of expectations, bolstered by strong demand in both Latin America and Asia.
Airlines: British Airways widened 12bps (2%), a modest move despite missing H1 estimates, and revising full year revenues down citing a weak USD. Lufthansa widened 8bps (20%) this week in reaction to Russia banning LHA cargo flights in Russian airspace, thereby hurting LHA's Asia business. Sector wide concerns continue to mount regarding rising fuel costs.
Food/Beverages: Cadbury's widened 2bps (6%) this week influenced by rising milk prices, which is eating into profit margins. Elsewhere Diageo widened despite an upgrade by Lehmans, noting a possible 28% upside to equity should the company merge with a major beermaker. Compass widened 3bps (11%) this week.

Interest Rate Outlook

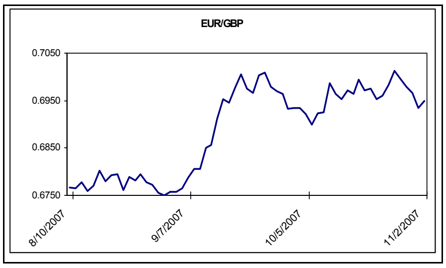


The yield on the US 10-year treasury fell by 8 basis points to finish the week at 4.32% as investors continue safe haven purchases following the sell-off in equity markets. The yield on the 10-year German bund as relatively flat over the week at 4.18%.

Currency Comment



The $ had another disappointing week against € as it reached another record low of $1.4528 on Friday despite a much stronger than expected nonfarm payrolls. All focus this week will be in Europe where the ECB is expected to meet on Thursday for its interest rate decision. The ECB is expected to keep rates on hold at 4%, however all eyes will be on Trichet's comments in the press conference.



The € traded again in a tight range with £ last week which is likely to continue with both the ECB and BoE expected to keep rates on hold on Thursday at 4.00% and 5.75% respectively. Recent comments out of both the ECB and BoE suggest that there is continued concern over inflationary pressures due to high commodity prices.

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DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.	Tel : +353 1 633 3800/1890 400 300	E-mail: info@dsl.ie
45 South Mall, Cork, Ireland	Tel : +353 21 422 2122	E-mail: cork@dsl.ie
Theatre Court, Mallow St, Limerick, Ireland.	Tel : +353 61 436 500	E-mail: Limerick@dsl.ie