

# Traders Update

MONDAY 14TH JANUARY 2008

## Market Comment

Global equity markets are at a pivotal point following last weeks bout of volatility. We referred last week to the lack of direction being provided by global central banks and suggested that little would change when the ECB and Bank of England met. Naturally enough, neither disappointed, with both keeping rates on hold but with the ECB advising that it would take whatever action was necessary to quell the growing inflationary threat. What happened subsequently took everyone by surprise with 'Helicopter Ben' Bernanke commenting that the Fed "stands ready to take substantive additional action as needed to support growth and to provide additional insurance against downside risks", which translated means the US economy is slowing faster than they thought, led by housing and rising unemployment, and that a 50 basis point cut is odds-on when the Fed next meets at the end of the month. While this is a welcome development, it is however only the start of further aggressive easing. The concern for equity markets, which still finished the week lower following this news, is have the authorities left it too late to avert recession? Our guess is that it will be a close run thing but that recession will be averted. In any event the first quarter will continue to be volatile until the full extent of the sub-prime issue is revealed. In this context next weeks results from Citigroup and Merrills will be closely watched as will the inflation data, which could curtail the Fed's ability to ease as quickly as it would like.

## TRADING IDEAS, EARNINGS & PREVIEWS

### Central Banks

At the ECB's press conference last Thursday, Jean Claude Trichet reiterated his hawkish commentary that inflation remains the central bank's predominant concern and that it stands ready to act when necessary. With price stability the primary mandate of the ECB and inflation running at 3.1% and well above the ECB's preferred level of below 2%, the markets current expectation is that the ECB will leave interest rates on hold at 4.00% until the end of the year. In contrast, Ben Bernanke's comments also last Thursday were his most dovish with regards to interest rates since he took over as Fed Chairman. Bernanke pointed out that lower interest rates may be required in light of recent changes in the outlook for the US economy and risks to growth. December's sharp rise in unemployment to 5.0% from 4.7%, has increased expectations that the US economy may well slip into recession. As a result, the market currently expects the Fed to aggressively lower interest rates by a further 50 basis points when its meets on January 30<sup>th</sup>. Last week, the Bank of England (BoE) left interest rates unchanged at 5.50%. With increasingly weak corporate and economic data emerging from the UK, the market expects that the BoE will lower interest rates by a further 25 basis points to 5.25% at its next meeting on February 7th.

### Ryanair EUR/GBP

Some of the recent weakness in **Ryanair** has been driven by the c.5% strengthening of €/£ within the past month, with c.48% of the airline's revenues sterling denominated. However, the c.3% strengthening of €/£ within the same period provides an offsetting effect, given that all of the airline's fuel and aircraft costs are US \$ denominated. Ryanair also generates no US \$ revenues, but has some £ denominated overheads, implying that the net impact of the issue overall is not material for the airline's 2008 earnings.

### Paragon rights issue and UK buy to let mort- gage lending

The share prices of the Irish financials exposed to UK buy-to-let mortgage lending were weak on Friday, after UK buy-to-let lender, Paragon, announced a £287m fully underwritten rights issue. This compared to a previous day's market cap of c.£120m, and structured as a 1 for 10 share consolidation, with a 25 for 1 rights issue, resulted in a 40% fall in the Paragon share price. The announcement caused more selling of **Bank of Ireland (€9.61)** and **Irish Life & Permanent (€10.42)** particularly. However, in conjunction with its results' announcement in November, Paragon had previously announced its intention to raise £280m through an equity rights issue to repay a £280m loan facility falling due in February. Also, neither Irish bank has a particularly large exposure to the UK buy-to-let market, with BOI's exposure representing c.3% of group earnings and IL&P's exposure representing c.5%. For H1 2007, both BOI and IL&P reported strong UK buy-to-let loan growth of 17% and 34% respectively, with excellent credit quality. Paragon's current funding problems may also help both Irish lenders to continue this strong buy-to-let loan growth during H1 2008, particularly now that UK interest rates have started to be cut. The recent easing in the cost of wholesale funding, with 3 month Euribor now c.0.58% above base rates, versus c.1% above base rates in early December, should also help the 2008 earnings of these Irish financials.

### BT Group Chart View:

Stock has broken out of its recent downtrend. May need to consolidate recent gains before further upside can be expected. A close above 292p sets up a move towards the 300p

**Fundamental view** : Last week shares in **BT Group** rose by 5% with increasingly positive commentary on the group's solid defensive characteristics in this current turbulent equity market. To offset a decline in fixed line revenue, BT has been increasing its focus on changing its operating mix to expand into new wave services which includes BT Global Services integrated products, broadband and converged services now representing 38% of group revenue. A further example of BT's expansion into new wave services can be seen in its recent announcement that all of its BT Vision IPTV customers will be able to receive high-definition television, gaming and movies through Microsoft's Xbox 360 console.

**Next Catalyst**: On 07/02/08, BT is due to report its third quarter earnings for 2008 and we expect the group to report another strong set of results with EPS growing by c. 4% to 5.8p on a 5% rise in revenue to £5.3bn. BT currently trades at a forward P/E of 10.6x and EV/EBITDA of 5.5x, a discount to its peer group of 14x and 6.8x respectively. While we believe that BT deserves to trade at a discount given its lack of international exposure, we feel that a multiple of 13x is more appropriate which generates our current price target of £3.40 based on 13x forward EPS of 26p. BT shares also provide a dividend yield of c. 6% and the group is currently in the middle of its £2.5bn share buyback program which it expects to complete by 2009.

### Pairs trade Long Tesco

#### Chart view: Tesco

Stock has broken down in recent sessions. However, long term trend support dating back to 2003 is intact and a sustained move below the 392p area would be required to alter the longer term positive outlook.

### Short Home Retail Group

#### Chart view: Home Retail Group

Stock is in a medium term downtrend with no signs of a solid support base being formed. Further weakness expected.

**Fundamental view**: **Tesco's** share price has fallen by c. 11% since the start of the year on the back of some disappointing trading updates from discretionary UK retailers such as Dixons and Marks & Spencer. We feel however that this fall is unjustified given Tesco's defensive characteristics as it focuses primarily on providing consumer staple products. Its closest peer in the UK, Asda (owned by Wal-Mart), commented last week that it has had its best Christmas yet and we see no reason why Tesco will not have had a similar outcome. Encouragingly, Taylor Nelson Sofres (TNS) data released last Wednesday showed that Tesco's share of the UK grocery market increased by 0.1% to 31.5%. In contrast, UK discretionary retailers have had a dismal Christmas season due to the slowdown in UK economic activity and we feel that **Home Retail Group** (owner of Argos and Homebase) will have had similar difficulties as its main exposure is to slowing UK and Irish economies.

**Next Catalyst**: Tomorrow, Tesco is due to issue a trading statement encompassing the Christmas selling season, while Home Retail Group will issue its trading statement on Thursday. We feel that Tesco will be well insulated to the downturn in UK consumer spending due to its low price product offering, while Home Retail's discretionary product offering will struggle during such a downturn. While Tesco does trade at a significant premium to Home Retail at 16x forward earnings versus 9x for Home Retail, we believe this premium is deserved given its international exposure and consumer staple profile.

### Pairs trade Long IAWS

#### Chart view: IAWS

In recent months the chart has made a solid attempt at forming a medium term support area, and support at €13.65 needs to hold. If a break of the €15.40 area is achieved then the chart outlook becomes very positive.

### Short Kerry

#### Chart view: Kerry Group

Strong resistance has meant that recent attempts at making new highs have failed. Without improved momentum stock may suffer.

**Fundamental view**: **Kerry Group** and **IAWS** operate in similar geography's and industries, but their performance of late contrasts strongly. In the last week IAWS has declined 7.8% while Kerry rose 1.5%. The main catalyst for IAWS 's decline appears to be poor figures from food producer Premier Foods. Premier Foods has been hurt by cost inefficiencies and lack of branding, areas which IAWS and to a lesser extent Kerry Group are strong. Given the steep decline of the Dollar versus the Euro, and that 27% of Kerry's revenue come from its US operations compared to 19% of IAWS, this should have a stronger negative impact on Kerry. IAWS trades at 14.5x current earnings, while Kerry trades at 15.6x. We forecast higher earnings growth for IAWS of 9.3% compared to 6.6% for Kerry. Additionally Kerry may come under downgrade pressure due to recent downgrades of Danone, Unilever and Nestle, which are less relevant to IAWS.

**Next Catalyst**: The catalyst for this trade is the belief that IAWS is significantly oversold relative to Kerry, and that this is likely to reverse in the short term. The next catalyst for this trade is Kerry's full year results on 26th February, when any weakness in Kerry's outlook would be expected to impact Kerry more than IAWS, while a positive outlook should provide a similar boost to both companies. IAWS has interim results in mid March and is expected to post strong results, further strengthening its position relative to Kerry.

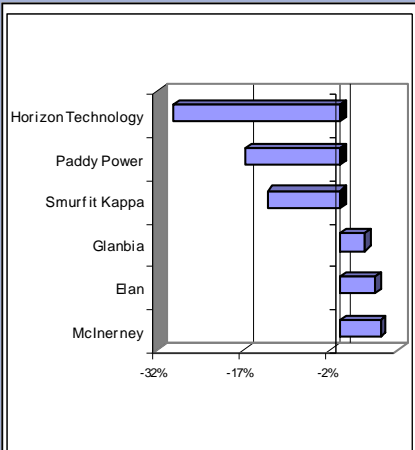
**EARNINGS** : Mon (M&T,Q4) Tues (Taylor Wimpey,TS) Tues (Citigroup,Q4) Tues (Intel,Q4) Tues (Tesco, TS), Wed (C&C,Q4) Wed (JPMorgan,Q4) Wed (Wells Fargo,TS) Thur (Rio Tnto,Q4) Thur (Associated British Foods.Q1) Thur (Barratt Developments.TS) Thur (Kesa Electricals.TS) Thurs (SABMiller.Q3) Thur (Merrill Lynch.Q4) Thurs (IBM, Q4) Fri (GE.Q4).

**ECONOMIC DATA**: Monday (UK PPI, Euro-Zone Industrial Production), Tuesday (UK CPI, German ZEW, US PPI, Retail Sales, Empire Manufacturing), Wednesday (UK Unemployment, Euro-Zone CPI, US CPI, Industrial Production, Fed Beige Book), Thursday (ECB Monthly Report, US Housing Starts, Philadelphia Fed), Friday ( UK Retail Sales, US Michigan Confidence).

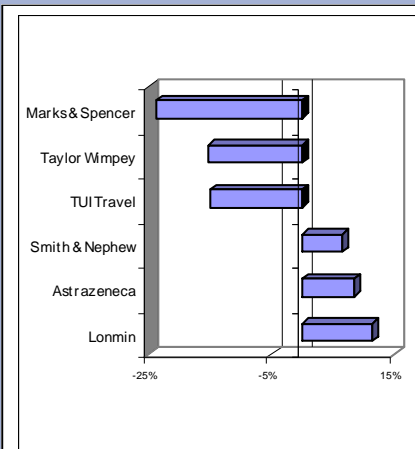
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
04/01/08-11/01/08

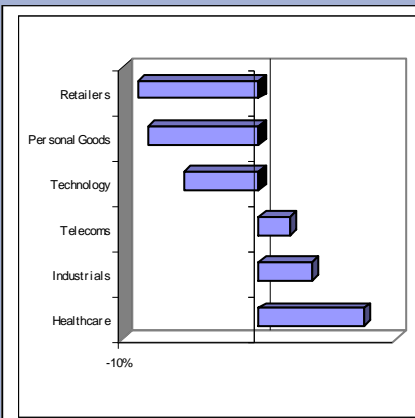
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE



Company	WTD	Relevant news
AIB	-2.6%	Benefits from recent U.S banking M&A activity.
Aviva	-3.0%	Removed from 'least preferred' list by Merrill Lynch
BP	-4.3%	BP price est. raised to 740p from 725p at Deutsche Bank.
Coca Cola	3.1%	Coca-Cola price est. raised to \$69 vs \$64 at Lehman Brothers.
CRH	-8.2%	CRH raised to 'hold' from 'sell' at Societe Generale.
Hewlett Packard	-4.0%	Hewlett-Packard added to JPMorgan's 'Focus List'.
IAWS	-5.3%	Peer Premier Foods issued disappointing trading update
IL&P	11.5%	Irish home registrations fall 62.3% in December.
Microsoft	-1.4%	Microsoft acquires Norway's Fast Search for \$1.2 billion.
Paddy Power	-16.8%	Recent sell off represents good buying opportunity
Ryanair	-5.0%	After Peer easyJet Reported a fall in its December load factor
Vodafone	0.3%	Vodafone benefits from Morgan Stanley's raised forecast to 215p

## What it says in the 'Sundays'

Company	Paper	Headline
Kerry	S. Times	"Kerry clears Dairygold deal hurdles"
CRH	S. Times	"A monolith that is built to last"
Aer Lingus	S. Tribune	"Carroll eyes up Aer-Lingus HQ"
C&C	S. Tribune	"C&C 'a drag' on export figures"
Glanbia	S. Independent	"It's time Glanbia did Dairygold deal"
IN&M	S. Business Post	"Indo's takeover speculation rumbles on"
Aer Lingus	S. Business Post	"Aer Lingus sells just 1/3 of its Belfast Heathrow seats"

## Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
Anglo Irish Bank	-11.62%	29/11/07	Group CEO David Drumm explained that the bank business model remains protected from the current banking crisis
United Drug	-1.27%	21/11/07	Group CEO Liam Fitzgerald told us to expect strong double digit revenue growth next year
Ryanair	-16.02%	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	6661	-4.5%	-3.9%	2.9%	9.7
FTSE 100	6202	-2.3%	-3.9%	3.9%	12.1
DAX	7718	-1.1%	-4.3%	2.5%	13.0
Dow Jones	12606	-1.5%	-5.0%	2.4%	15.2
S&P 500	1401	-0.7%	-4.6%	2.0%	15.7
Nasdaq	2440	-2.6%	-8.1%	0.8%	25.3
EuroStoxx 50	3539	-1.1%	-3.9%	3.7%	11.8
Nikkei 225	14111	-3.9%	-7.8%	1.5%	16.1

## Sector

	Weekly move%	YTD move %
Pharmaceuticals	7.69	5.04
General Industrials	3.86	-3.64
Telecommunications	2.24	-0.19
Tobacco	1.53	0.40
Chemicals	-0.28	-0.80
Insurance	-0.36	-4.42
Automobiles & Parts	-0.86	-11.65
Utilities	-1.07	-1.20
Mining	-1.20	-1.62
Banks	-1.76	-3.27
Leisure Goods	-2.25	-7.35
Beverages	-2.54	-3.71
Oil & Gas	-2.88	-2.06
Food Producers	-3.18	-5.99
Construction & Materials	-3.67	-10.21
Software	-5.15	-8.12
Media	-5.21	-10.67
Technology	-5.45	-10.18
Personal Goods	-8.06	-11.38
General Retailers	-8.74	-20.31

## Commodities

	Current	Change YTD
Crude Oil	\$92.69	-3.4%
Gold spot	\$895.40	+7.4%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.478	+1.3%	1.55
EUR-GBP	0.7552	+1.3%	0.75
EUR-JPY	160.8	-2.21%	165.0

## GDP Growth

	Current	Year End (est)
Ireland	5.00%	3.00%
Euro Zone	2.50%	2.00%
UK	3.10%	2.00%

## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.57%	3.75%
UK	5.50%	5.68%	5.00%
US	4.25%	4.26%	3.50%

## Credit Market Summary

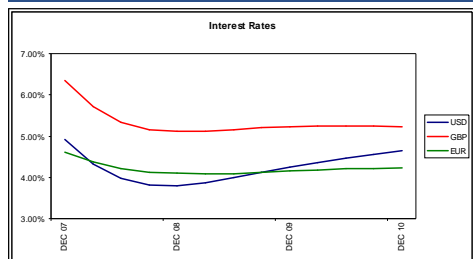
Credit markets had a volatile week, spreads widened mid-week to mid-November levels at 400bps on concerns that Countrywide was about to declare bankruptcy only to tighten towards the end of the week on the prospect of rate cuts in the US and the 'white knight' effect of Bank of America acquiring troubled Countrywide Financial. While this acquisition may be turn out to be a seminal point in the current market there remains an undertone of concern as we enter the Q4 earnings season.

## Credit Sector Movements

**Automotive:** Wider in the sector – sector was wider, especially in the European auto names where the risk of a downturn in auto sales has already been priced in. Moody's issued a report this week saying sector 'challenges' will persist in 2008 with worldwide demand for cars to increase 3% driven by emerging market demand, Western European demand is expected to be flat. While European automakers all widened an average of 30% in credit spreads the increase in risk in GM and Ford was minimal by comparison at 5% – this week GM reported a 15% increase in emerging market sales.

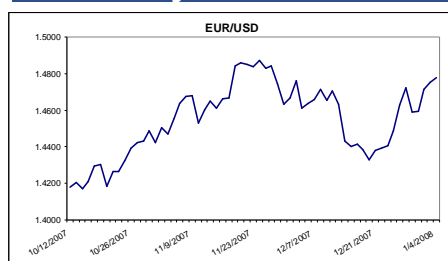
**Retail:** Wider in the sector – MKS set the tone for the week announcing an unexpected Christmas sales drop causing spreads to widen 46%; this sparked 20% increases in spreads on both Tesco and Sainsbury. Elsewhere retailers results are beginning to show the risk of economic downturn increasing - Dixons widened 27% this week while Kingfisher was another 21% wider.

## Interest Rate Outlook

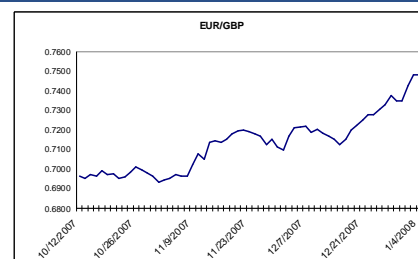


Treasuries rose for a fourth straight week, pushing the yield on two-year notes to their lowest levels since 2004 as Ben Bernanke pledged 'substantive additional action' in order to prevent a recession in what was his most dovish commentary since taking over as Fed Chairman. The market now expects the Fed to lower interest rates by a further 50 basis points when it meets on January 30<sup>th</sup>, with a possible interim rate cut not beyond the realms of possibility.

## Currency Comment



The € continued its gain against the \$ last week as the currency closes in on the psychological \$1.50 mark again. Strength for the € came on the back of hawkish comments from Jean Claude Trichet on Thursday that inflation is still the primary concern of the ECB and that the central bank remains ready to act to stem price pressures if necessary. US retail sales for December is due for release on Tuesday and any



The £ fell to an all time low against the € last week to 75.84p as increasingly weak economic and corporate data from the UK may force the Bank of England to reduce interest rates by a further 25 basis points to 5.25% when it next meets on February 7<sup>th</sup>. Inflation data on Monday and Tuesday will have a bearing on the decision and any reduction in the CPI and PPI numbers will make the BoE's decision to lower rates a little easier.



## 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.

## 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. Stuart Draper, David Dunk and Stephen Taylor are responsible for the production of this report. Stuart Draper is Head of Research and Stephen Taylor is an equity analyst.

## 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.



## DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.  
45 South Mall, Cork, Ireland  
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300  
Tel : +353 21 422 2122  
Tel : +353 61 436 500

E-mail: info@dsl.ie  
E-mail: cork@dsl.ie  
E-mail: Limerick@dsl.ie