

Traders Update

TUESDAY 7TH AUGUST 2007



Brief Market Comment

Sub-prime induced volatility continued to dominate equity markets last week, and while the on the surface indices appeared to perform well on a week-on-week basis with either an unchanged show for the week or in some cases an improvement, deep-down uncertainty dominates. The reassuring results from potential sub-prime exposes such as RBS, Barclays and Deutsche Bank helped soothe nerves to a certain extent, however the closure of sub-prime mortgage provider American Home Mortgages, an outlook downgrade on Bear Stearns and difficulties with German lender IKB all added to the uncertain outlook for markets. A softer than expected US jobs number and a weaker ISM reading did little to appease investors as the week drew to a close. The continued focus as we move into a week, which is light on economic releases, will be on sub-prime and any subsequent distress this might cause. The Fed meet on Tuesday when they are expected to leave rates on hold at 5.25%, however some comment on the overall impact of sub-prime on the broader economy and on monetary policy may help settle investor jitters.

Major results reported last week

Ryanair

Current: €5.46
P/E 07 18.32
Div Yield 07 0.00%

Last week, **Ryanair** announced its results for the 3 months ended 30/06/07. Net profit and eps of €138.9m and 8.98c respectively, were both **12%** ahead of the consensus forecasts of €124m and 8c, and were both year on year increases of **20%**. In addition to the usual strong passenger and ancillary revenue growth, the 20% earnings growth was driven by much less Q1 yield erosion than had been feared, at **0.5%**. The airline is also now guiding full year unit operating cost growth of 5%, versus 6% to 7% previously, helped by reducing capacity at Stansted this winter from 40 aircraft to 33. As a result, the airline's full year net profit growth **guidance was increased** from 5% to 10%, which taking account of the c.2.4% of shares bought back under the recent share buyback programme, would result in a current year eps of c.29.3c.

Taylor Wimpey

Current: £3.40
P/E 07 9.23
Div Yield 07 4.61%

Last week, the UK's largest homebuilder, **Taylor Wimpey (TW)**, announced its results for the 6 months ended 30/06/07. Even though the underlying profit before tax of £259m was slightly ahead of the consensus forecast, the lack of a prior year comparative meant that there was greater market interest in the group's current trading outlook, expected merger synergies and capital distribution plans. In this regard, the group's UK order book showed a **5%** year on year increase on a pro-forma basis, with George Wimpey's commitment for a 2007 UK operating margin of over 14% extended to the whole group. The expected synergies from the merger were upgraded from £70m to **£100m**, and a **£750m** (c.20% of current market cap) share buyback over the next 18 months was announced, which started last week.

RBS

Current: £5.80
P/E 07 7.97
Div Yield 07 5.90%

Last week, **Royal Bank of Scotland (RBS)** announced its results for the 6 months ended 30/06/07. Underlying profit before tax and eps of £5,106m and 38.4p respectively were c.1.5% ahead of consensus forecasts and were year on year increases of **11%** and **21%**. The growth was driven by a very strong performance from the group's Global Banking & Markets division, which showed a 19% year on year increase in profit before tax to £2,170m, as well as a **2% lower** group bad debts charge of £871m. RBS stated that bad debts on UK unsecured loans had now peaked, and that it had not been substantially hit by the recent capital market turbulence, with its July 2007 Global Banking & Markets division profits ahead of July 2006. RBS also confirmed that the headwinds in its US and insurance businesses had recently started to abate.

British Airways

Current: £4.07
P/E 07 7.52
Div Yield 07 2.45%

Last week, **British Airways** announced its results for the 3 months ended 30/06/07. Operating profit of £263m was **18%** ahead of the consensus forecast of £222m, and was a year on year increase of **28%**. The growth was primarily driven by lower employee and fuel costs, which fell by 8.3% and 5.2% respectively, resulting in the operating margin increasing from 9.2% to **12%**. Despite the prospects for 55% earnings growth this year, BA is still trading at 7.8x eps of 51p for the year ending 31/03/08, and the airline is also expected to resume paying a dividend of 12.4p this year, representing a yield of **3.1%** on the current share price.

Other trading ideas

AIB

Current: €19.60
P/E 07 9.57
Div Yield 07 4.03%

Last week, **AIB** announced its results for the 6 months ended 30/06/07. Underling eps of 108.8c was **5%** ahead of the consensus forecast of 103.5c, primarily driven by better than expected credit quality and margin erosion, and was a year on year increase of **15%**. The bank's bad debts charge, at 0.04% of average earning assets, was better than the 0.09% expected, and the erosion in the net interest margin of 0.09% was better than the 0.12% guidance contained in the June trading statement. Strong loan growth was delivered in all of the bank's core businesses of Ireland (20%), UK (26%), Capital Markets (36%) and Poland (34%). In conjunction with the H1 results' announcement, **AIB upgraded its full year earnings growth guidance** from "low double digits" in its June trading statement to "**low teens**" now.

CRH

Current: €31.99
P/E 07 12.66
Div Yield 07 1.94%

The share price of **CRH** has corrected by c.16% over the past month in line with global equity market weakness, Irish equity market weakness, and the group's c.8% exposure to the US new housing market. However strong European markets, together with buoyant US infrastructure and commercial markets, mean that the group should generate double digit earnings growth in 2007, and as its €2.1 bn of acquisitions in 2006 start to generate increased synergies next year, further double digit earnings growth should be generated in 2008. The prospects for further sector corporate activity this year is also supportive of valuations, and our current 12 month price target of €40 is based on 15x consensus 2008 eps of €2.68.

BP

Current: £5.50
P/E 07 10.57
Div Yield 07 3.87%

BP recently announced its results for the 3 months ended 30/06/07. Underlying replacement cost net profit, excluding changes in the value of inventories, of \$5.346 bn was 7.5% ahead of the consensus forecast of \$4.975 bn, even though it was a year on year decrease of 12.5% as a result of disruptions at the group's US refineries. However, these disruptions were caused by a program of maintenance designed to increase safety, which should also help increase the group's US refining margins. Our view remains that what is not yet discounted by the BP share price is the potential for production growth to resume in 2007, and our current 12 month price target of £6.50 is based on 11x 2008 eps of 59p.

EARNINGS: WED (Carlsberg, H1), (Adidas, H1), (Friends Provident, I), (Royal & Sun Alliance, I) THUR (BAE Systems, H1), (Ladbrokes, H1), (Fortis, H1), (Deutsche Telekom, H1), FRI (RBS, EGM)

ECONOMIC DATA: Tuesday (German Industrial Production, US Nonfarm productivity, Unit Labor Costs, FOMC Interest Rate Decision), Wednesday (US Wholesale Inventories, UK Bank of England Quarterly Inflation Report), Thursday (US Jobless Claims), Friday (US Import Price Index)

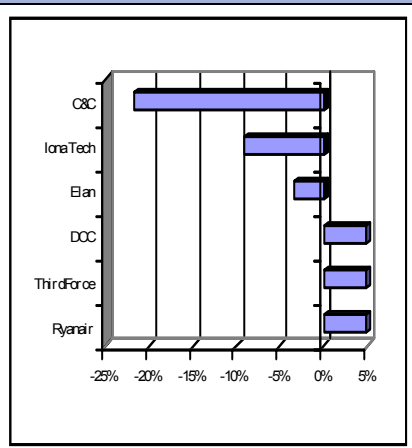
This Week's
Calendar Events

DOLMEN STOCKBROKERS Traders Update

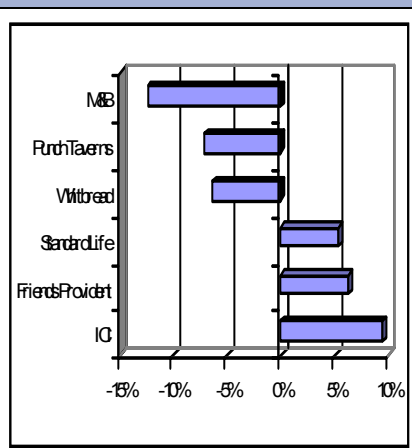
Last Weeks Best/ Worst Performers

27/07/07-03/08/07

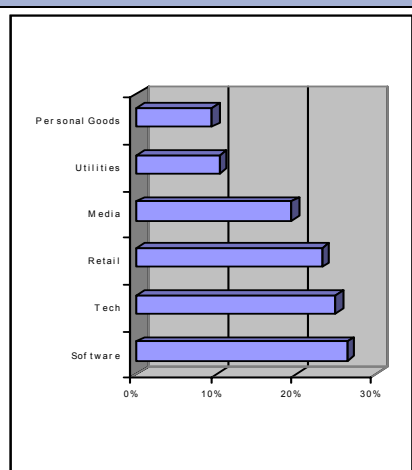
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	19.60	7.69%	-18.24%	Recently reported 1H pre-tax profit that rose by 9% to €1.3bn and raised full year guidance
Aviva	6.68	-0.30%	-18.25%	The group's said its initial UK flood cost estimate of £175m remains unchanged
BP	5.48	-4.36%	-2.59%	Press reports suggest BP has hired Bain Capital to assist in simplifying its organisational structure
B. Land	12.11	-0.08%	-28.30%	Ahead of the group's first quarter results due on August 16th
C&C	6.56	-17.07%	-36.12%	Issued a second profit warning in three weeks due to continued bad weather and increased competition
CRH	31.99	-0.03%	3.79%	The group may be interested in Anglo American's Tarmac division, according to press reports
GNC	5.01	0.60%	10.24%	Origin bought Greencore's 50% stake in Odlum for €35m
GSK	12.79	4.41%	-3.59%	FDA voted to keep the company's diabetes drug Avandia on the market
LAD	3.95	-2.95%	-0.94%	Ahead of the group's interim results on August 9th
RBS	5.80	1.93%	-12.96%	Reported 1H net income that rose by 19% to £3.56bn and ahead of expectations
Ryanair	5.46	14.71%	0.85%	The airline raised its full year net income growth forecast to 10% from 5%
Vodafone	1.55	2.65%	10.68%	Citigroup upgraded its rating on the stock to buy from hold

DD Unrealised gain YTD	-8.16%	ISEQ YTD	-10.97%
DD Realised gain YTD	2.53%	FTSE YTD	-2.19%
DD Total YTD	-5.62%	Average performance	-6.58%
Relative performance YTD	0.96%		

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

What it says in the 'Sundays'

- "CRH in running for €5.5bn Tarmac bid" **CRH - Sunday Business Post**
- "C&C rivals circle the flagons" **C&C - Sunday Business Post**
- "Sheehy's moves worth waiting for" **AIB - Sunday Business Post**
- "Credit Unions exposed to US subprime crisis" - **Sunday Times**
- "C&C on bid alert after sales slip" **C&C - Sunday Times**
- "Still the nation's favourite bank" **AIB - Sunday Times**
- "AIB shares are cheap at the price" **AIB - Sunday Independent**
- "Bookies cashing in on on-line bets" **Paddy Power- Sunday Tribune**
- "Under fire for Deal Delay" **Petroceltic- Sunday Tribune**
- "British no longer thirsting for Magners" **C&C- Sunday Tribune**

Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Metro Baltic	-7.30%	13/07/2007	James Kenny re-iterated that the company has now has fully invested 95% of the funds raised. He also stated that going forward the company will concentrate on St. Petersburg.
Bank of Ireland	-20.94%	22/06/07	CFO J O'Donovan re-iterated that the only 10% of the groups PBT comes from Irish mortgages and he expects loan book growth of 15% for next year
Glanbia	25.00%	18/06/2007	Deputy Group Managing Director Geoff Meagher re-iterated recent guidance of double digit eps growth for 2007.

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	8651	1.07%	-8.00%	2.10%	13.80
FTSE 100	6249	-1.77%	0.43%	3.80%	12.70
DAX	7509	-1.04%	13.77%	2.60%	13.11
DJ INDUS. AVG	13469	0.83%	8.07%	2.12%	17.71
S&P 500	1468	-0.42%	3.48%	1.85%	16.89
NASDAQ	2547	-1.39%	5.47%	0.72%	35.97
DJ STOXX 50	3726	-1.80%	0.78%	3.59%	12.40
NIKKEI 225	16922	-1.90%	-1.77%	1.14%	35.62

Sector

	WEEKLY MOVE %	YTD MOVE %
Automobiles & Parts	-1.32	25.41
Construction & Materials	-0.14	25.07
Chemicals	1.17	23.72
Mining	-0.41	23.00
Tobacco	1.89	10.67
Technology Hardware & Equipment	-1.41	7.80
Media	0.68	6.51
Personal Goods	0.51	5.13
Oil & Gas Producers	-0.11	2.43
Beverages	-1.19	2.28
Leisure Goods	-0.55	0.46
Telecommunications	-0.30	0.31
General Industrials	0.88	-1.71
Pharmaceuticals & Biotechnology	0.84	-2.05
Food Producers	-0.33	-3.01
Banks	1.18	-4.72
Gas, Water & Multiutilities	0.02	-5.23
Insurance	0.76	-5.62
General Retailers	1.16	-6.74
Software & Computer Services	0.48	-8.52

Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$71.58	8.59%
Gold Spot	\$669.88	5.25%

Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.38	4.39%	1.35
EUR-GBP	0.681	1.07%	0.665
EUR-JPY	163.90	4.09%	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%	5.25%

Credit Market Summary

A cocktail of U.S. mortgages gone sour and 48 jeopardized leveraged corporate deals sent capital markets into a tizzy this week as investors took refuge in safer securities. Spreads widened dramatically early in the week only to close the week 25% off their highs, indicating a relative calm in light of good corporate earnings releases this week. High yield index ended the week at 385bps (230bps July 1st) while the investment grade index closed at 51bps (25bps July 1st).

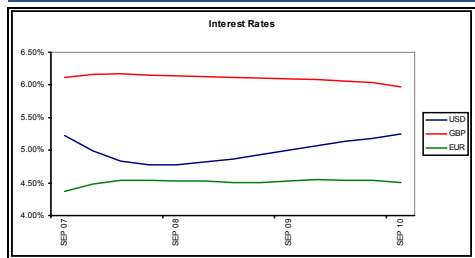
Credit Sector Movements for week ended 03/08/07

Food/Beverages: The re-pricing of risk in the credit markets saw Cadbury's delay the sale of its drinks division this week, saying 'the credit markets are effectively closed', which means that once liquidity does improve and the deal gets to market investors will likely demand a greater risk premium, spreads widened 22bps (29%).

Retail: Mixed in the retailers – retailers who had been the subject of takeover speculation saw spreads tighten as the market for leveraged debt dries up, reducing the risk of a takeover – Morrisons -10bps; Sainsbury's -2bps. Boots saw spreads widen after book-runners on the leveraged deal saw the second lien tranche of the deal shelved due to poor investor demand, this follows last weeks suspension of the senior portion of the deal. Indications are investors will demand higher returns, spread widening to continue.

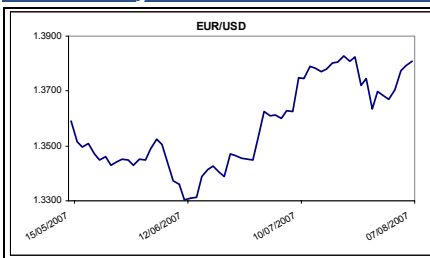
Media: Terra Firma got 90% acceptance from EMI shareholders for its £2.4b takeover – at the same time Moody's cut the rating to B1 from Ba3, reflecting the expectation that the already highly leveraged EMI balance sheet will be further burdened by takeover debt.

Interest Rate Outlook

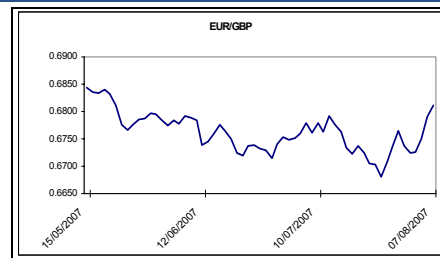


US 10-year treasury yields continued their decline last week falling a further 8 basis points as investors continue safe haven purchases amid credit concerns in the US. Yields could rebound this week if the Fed were to ease concerns about the subprime mortgage market spreading in to other parts of the economy in its statement following its interest rate decision on Tuesday.

Currency Comment



The € strengthened against the \$ last week after Trichet signalled a further rate hike in September. All focus will be in the US this week with the FOMC expected to keep US interest rates on hold at 5.25%. The market will be paying close attention to the accompanying statement and any references to inflation and the subprime mortgage market.



The tight trading range between Euro and Sterling continued last week as both central banks kept rates on hold. Sterling could strengthen this week however if the BoE was to make any hawkish comments in its quarterly inflation report that is due for release on Wednesday.



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