

## Brief Market Comment

Six weeks ago, when the worst of the market sell-off was in full flow it seemed highly improbable that we would be talking about a new all-time for the Dow and S&P. Fears over the level of distress the banks would encounter as a result of the sub-prime crisis and the subsequent dislocation of the credit and cash markets, certainly weighted heavily on the outlook. This week however the improbable happened. The Dow Jones and the S&P both touched all-time highs as the market continued to shrug off weak housing data, weaker manufacturing readings and a very weak factory orders number and instead took heart from a jobs reading that reverted back to more recent levels and to a revision to last months negative reading that was so great that it almost renders the jobs data as meaningless. Perversely however, the biggest boost for the market came from some of those banks the market fretted over six weeks ago, who last week committed numbers to the rumoured write-offs, which while large, were far from disastrous. Equity markets hate uncertainty, so these disclosures have gone part of the way to removing this. There are only two things needed now to remove any remaining uncertainty- a Fed rate cut at the end of the month and a reassuring Q3 reporting season, which kicks off on Tuesday with Alcoa.

## TRADING IDEAS, EARNINGS &amp; PREVIEWS

## RBS

Current: £5.70  
P/E 07 7.92  
Div 07 5.9%  
Next event 6/12/07  
Target £7.20

## BUY

Following Barclays' announcement on Friday of the withdrawal of its offer for ABN AMRO, the **Royal Bank of Scotland** (RBS) consortium would appear to be the winner of the 7 month takeover battle for the Dutch bank. RBS will pay c.€16 bn for ABN's investment banking and Asian businesses, c.€5 bn of which will be financed from an equity placing. RBS has a track record over the past 10 years of integrating its acquisitions well, generating synergies in excess of those initially targeted. Initial cost savings and net revenue synergies from the ABN takeover by the end of 2010 of €1,319m and €481m respectively would appear achievable, further boosting group eps by 2% in 2009 to 80p and by 7% in 2010 to 89p. The ABN acquisition further extends RBS' franchise in Asia and investment banking, which helps build sustainable revenue growth and cash generation for the group. This in turn creates the fire power for further bolt-on deals in the US without new capital having to be raised, which would further boost earnings growth from the synergies generated. Our current 12 month share price target of £7.20 (26% further upside) is based on 10x 2008 eps of 72p and the shares will also pay a current year dividend yield of c.6% for waiting for this upside to be achieved.

## Tesco

Current: £4.66  
P/E 18.5x  
Div 2.07%  
Next Event 17/04/08  
Target: £5.00

## BUY

Last week, Tesco announced strong interim results for the period ending 25/08/07. Net profit rose by 19% to £936m on revenue that increased by 9.1% to £22.6bn. UK like for like sales rose by 3.5% beating analyst expectations of 3% and the group pointed out that the growth rate in August had been particularly strong at 5%. The strong results confirm the recent Taylor Nelson Sofres (TNS) data that shows Tesco's market share in the UK is continuing to increase and now has almost double the market share of its nearest rival in Wal-Mart's Asda. Tesco's international division, which includes stores in China, Poland and Czech Republic also showed an impressive increase in sales rising by 22% and now represents 26% of total group sales. Tesco also confirmed that its preparations for the launch of its Fresh & Easy stores in the US have gone well and is on-track to open its first stores by November. Tesco's positive outlook and increasing exposure to international prospects should underpin the group's growth prospects.

## Ryanair

Current: €5.50  
PE 07 18.3  
Div 07 0.0%  
Next event 2/11/07  
Target €6.00

Unlike some of our competitors who have been frightened into sitting on the fence in recent months, we have consistently remained clearly bullish in relation to the Irish market. However, with the market having risen by over 11% in less than two weeks, our recommendation this week would be to use the recent strength to reduce positions slightly. Our view is that there will be opportunities later this month to buyback these positions at lower levels. Specifically, one of our top picks in recent weeks, **Ryanair**, has risen by 11% over the past two weeks, helped by strong September passenger numbers and by upgraded profit guidance from low cost peer, EasyJet. Even though our 12 month share price target for the Irish airline remains €6, based on 20x current year eps of 30c, the continued high oil price could cause some sector weakness later this month, from which Ryanair will not be immune. As a result, we would use the recent strength to reduce positions slightly, being of the view that there will be opportunities later this month to buyback these positions at lower levels : **Time for a little SELLING.**

## SAP

Current: €39.28  
P/E 07 24x  
Div 07 1.20%  
Next Event 18/10/07  
Target: €48.00

## BUY

SAP announced yesterday that it has agreed to purchase Business Objects for €4.8bn, a 20% premium to Business Objects' closing value on Friday. Business Objects is the world's largest maker of software that tracks and analyses corporate databases. The deal, which will be financed through cash and debt, marks a shift in strategy for SAP from its previous objectives of growing organically. SAP expects the transaction to be accretive to earnings in 2009 and beyond, although due to acquisition related one-time effects in 2008, SAP expects the transaction to be dilutive by mid-single digits. While the deal does appear expensive for SAP in terms of the enterprise value / sales multiple of 5.5x, a premium to the 3.6x Oracle paid to acquire Business Objects peer Hyperion, we believe that the acquisition makes sound strategic sense and recommend buying SAP shares on current weakness.

## Week's Events

**EARNINGS:** Tuesday (Northern Foods, Interim) (Alcoa, Q3) Wednesday (Cadbury Schweppes, Q3 trading update) (J Sainsbury, Q2 Trading update) (Carphone Warehouse, Q2 Trading update) (C&C, Interim Results)

**ECONOMIC DATA:** Monday (UK PPI), Tuesday (German Industrial Production, US FOMC Minutes), Wednesday (US Wholesale Inventories, Leading Indicators), Thursday (Euro-Zone GDP, US Trade Balance, Import Price Index, Jobless Claims), Friday (Euro-Zone Industrial Production, US PPI, Retail Sales, Michigan Confidence, Business Inventories).

# DOLMEN STOCKBROKERS Traders Update

## Allied Irish Banks — Daily Chart



## Allied Irish Banks — Weekly Chart



### Technical Indicators: Comment:

Support Key 15.95 Recent price action has brought the chart back to key resistance levels. The test and failure to break the downtrend on either the daily or weekly chart means there is some work to go before we become overly positive. Any longs from lower down should look to take some money off the table at this point as we assess the extent of today's correction. **No position**

Support Secondary 17.80

Resistance Key 18.60

Resistance Secondary 19.00

## Anglo Irish Bank — Daily Chart



## Anglo Irish Bank — Weekly Chart



### Technical Indicators: Comment:

Support Key 13.70 Recent price action has been positive with a break of the short term downtrend on both the daily and weekly chart. Need to hold the 13.70 level during the next pull back, a hold of this level opens up a move to the 14.80 and above. A break of the 13.70 level opens up a move lower to the 13.10 up trend support. **Buy with a 13.05 stop**

Support Secondary 13.10

Resistance Key 14.80

Resistance Secondary 15.10

## Bank of Ireland — Daily Chart



## Bank of Ireland — Weekly Chart



### Technical Indicators: Comment:

Support Key 13.10 A mixed chart with a positive breakout on the daily chart not yet confirmed with a break on the weekly chart. Chart remains positive above the 13.10 level as we look to test the key 14.00 level. **Buy with a 13.00 stop**

Support Secondary 12.00

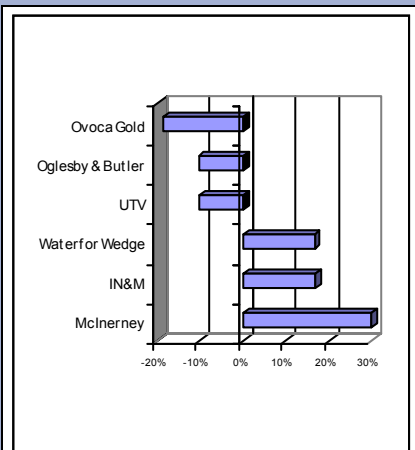
Resistance Key 14.00

Resistance Secondary 14.80

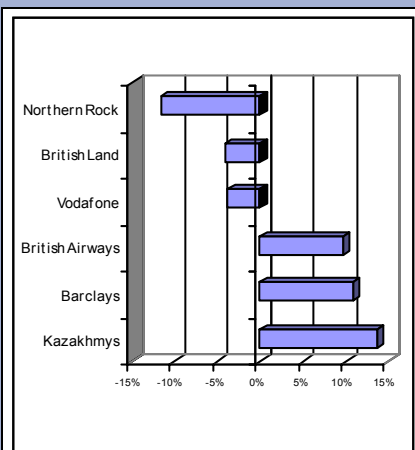
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers 28/09/07-05/10/07

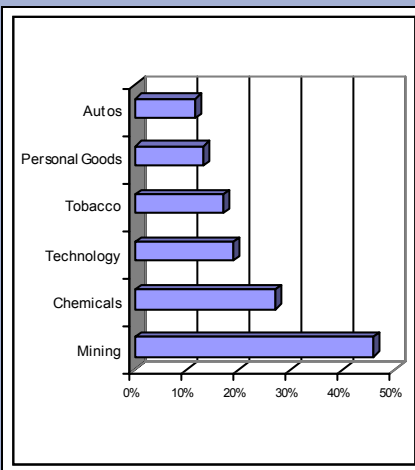
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen WEEKLY UPDATE

Company	WTD	DD Return*	Relevant news
AIB	+9.3%	-17.3%	AIB recently confirmed it expects no material impact from rise in funding costs
Aviva	+2.9%	-0.7%	Received EU approval to buy HSBC's Hamilton Insurance
BP	+0.9%	+6.3%	The FT reported that BP will report its worst results since 1993 in October
CRH	+9.8%	+0.5%	Moody's said it limited a potential downgrade on CRH's Baa1 ratings to one notch
Greencore	-0.9%	+1.2%	Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations
GSK	+2.5%	+3.1%	GSK said it was facing 27 law suits over its Avandia diabetes drug
IL&P	+15.8%	+0.2%	Benefits from Bank of Ireland's recent upbeat trading statement
Ladbroke's	+0.7%	+10.8%	Ladbroke's continued its share buyback during the week
RBS	+8.6%	-8.3%	WestLB initiated research coverage of the stock with an add rating and £6.20 price target
Ryanair	+10.0%	+3.5%	Ryanair agreed a 4-year pay deal with its Dublin pilots
SAP	+1.6%	-6.6%	Agreed to buy Business Object for c.€4.8bn
Vodafone	-4.0%	+25.7%	Merrill Lynch raised Vodafone's price target to £1.90 from £1.75 previously

DD Unrealised gain YTD	1.76%	ISEQ YTD	-10.22%
DD Realised gain YTD	-2.78%	FTSE YTD	7.78%
DD Total YTD	-1.02%	Average performance	-1.22%
Relative Performance	0.20%		

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

### What it says in the 'Sundays'

Company	Paper	Headline
One51	Sunday Business Post	"Airtricity sale boosts value of One51 by €100m"
C&C	Sunday Business Post	"C&C to stay in European test markets"
Northern Rock	Sunday Times	"Northern Rock gets a lifeline"
United Drug	Sunday Times	"Forging on with potions and pills"
DCC	Sunday Times	"Time to cut DCC some slack"
Tesco	Sunday Independent	"Tesco & Dunnes to control half of market"
United Drug	Sunday Tribune	"HSE seeks wholesale drug price cuts"
Bol	Sunday Tribune	"Offers 'self cert' mortgages in UK"

### Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
IAWS	-17.5%	28/09/07	CEO Owen Cillian said that the company will be force to put through food price increases
Irish Life	-15.4%	11/09/07	Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins
FBD	-33.6%	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

	Level	Change WTD	Change YTD	Div Yield	P/E
ISEQ	8,461	+7.3%	-10.1%	2.2%	11.5
FTSE 100	6,596	+2.0%	+6.0%	3.6%	12.2
DAX	8,002	+1.6%	+21.1%	2.4%	13.7
DOW JONES	14,078	+1.2%	+12.9%	2.1%	15.7
S&P 500	1,556	+1.9%	+9.6%	1.8%	16.1
NASDAQ	2,773	+2.6%	+14.8%	0.7%	27.6
EURODOXX 50	3,904	+2.0%	+5.4%	3.5%	12.3
NIKKEI 225	17,065	+1.7%	-0.9%	1.1%	39.0

## Sector

	Weekly move%	YTD move %
Mining	+4.0	+52.0
Chemicals	-0.1	+26.9
Autos	+9.6	+22.4
Technology	-1.9	+16.3
Tobacco	-1.2	+15.5
Personal Goods	+1.6	+14.9
Beverages	+2.4	+14.4
Construction	+5.7	+11.6
Leisure Goods	-2.4	+8.1
Telecoms	-1.8	+8.0
Media	+2.5	+6.9
Oil & Gas	-1.5	+5.3
Utilities	+1.7	+5.1
General Industrials	-1.7	+3.1
Pharmaceuticals	+3.7	-0.4
Insurance	+0.3	-0.6
Software	+0.2	-2.8
Food Producers	+3.1	-4.2
General Retailers	+7.3	-7.3
Banks	+4.1	-9.7

## Commodities

	Current	Change YTD
Crude Oil	\$80.64	+21.3%
Gold spot	\$739	+15.9%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.415	+6.7%	1.35
EUR-GBP	0.693	+2.7%	0.665
EUR-JPY	165.3	+4.9%	145.0

## 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	Year End (est)
Euro Zone	4.00%	4.00%
UK	5.75%	6.00%
US	4.75%	4.75%

## Credit Market Summary

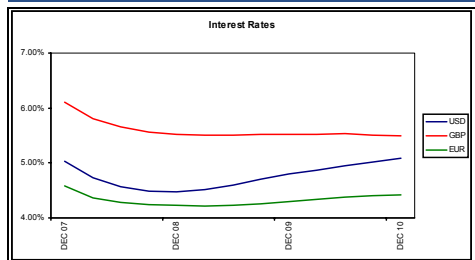
High yield spreads tightened 16bps (5.3%) this week, despite widening earlier in the week on poor US home sales data, spreads were happy with the strong non-farm payrolls number on Friday. As previously noted, spreads in financial names are still showing considerable risk, however Friday saw tightening in both US brokers and commercial banks, the market relieved at the transparency evident this week following UBS, Deutsche Bank and Merrill Lynch declarations of sub-prime write-downs.

## Credit Sector Movements

**Airlines:** Tighter in the sector – British Airways was the biggest mover +3ps (3%) after announcing a 1% fall in economy traffic, speculation also continues into a possible increased stake in Iberia. Lufthansa and BAE systems both tightened 1bps this week, Lufthansa dismissed rumours that it is on a shortlist to bid for Alitalia while BAE systems tightened following reports of an Australian army contract worth AUD1b. Rolls Royce was unchanged.

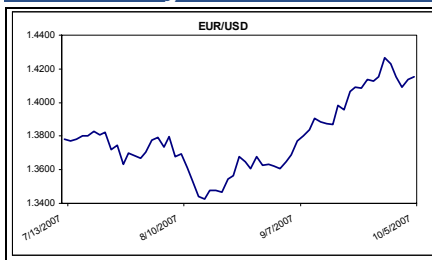
**Food/Beverages:** Tighter in sector – Cadbury's tightened 3bps this week after the company announced 700 job cuts in the UK – Cadbury spreads have tightened 50% in the past 7 weeks, indicating robust operations, which had been overshadowed by concerns over buyers for the US beverage operations. Compass tightened 3bps (1%) this week despite completing a 1m share buyback. Also this week its main competitor, Sodexo, raised its full year profit guidance, which left Compass spreads 50% tighter over the past 7 weeks. Diageo was unchanged.

## Interest Rate Outlook

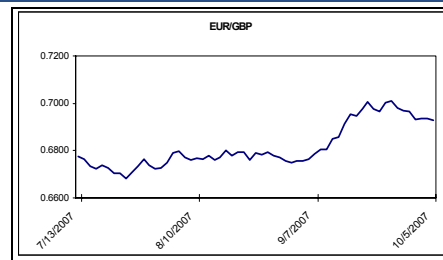


The yield on the US 10-year treasury gained 5 basis points last week boosted by the stronger than expected non-farm payrolls number indicating that the US economy may not be in as bad a shape as had been previously feared. The yield on the 10-year German Bund also strengthened over the week by 3 basis points to 4.36%.

## Currency Comment



The \$ finally regained some lost ground against the € last week following Friday's better than expected non farm payrolls number and upward revisions to the previous reading. All eyes will be focused on the US this week with minutes from the FOMC's September 18<sup>th</sup> meeting due on Tuesday, while Retail sales on Friday should provide investors with further information on US consumer.



The € continued its tight trading range with £ last week following both the ECB and BoE's decisions to leave rates on hold at 4.00% and 5.75% respectively. Range trading is likely to continue this week with little in the way of significant economic data due.



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