

Traders Update

MONDAY 9TH JULY 2007



Brief Market Comment

Equity markets across the board began the second half of the year in upbeat mood and shrugged off expectations of further rate rises in the Euro-Zone and the UK. Stocks were also boosted as the M&A theme re-emerged with private equity group Blackstone agreeing to buy Hilton Hotels for \$20bn fuelling speculation that other hoteliers may be targeted. The ISEQ was one of the best performing markets adding 1.6% and is now back in positive territory for the year. The FTSE also outperformed boosted by the mining sector as copper prices continue to soar. Equity markets will be looking to add to last week's gains ahead of the release of some key economic data. The US Trade Deficit will be in focus on Thursday and is expected show a rise to \$60bn, while on Friday markets will get an insight into how the US consumer is faring with retail sales figures due.

Current Trading Ideas

Grafton

Current: €10.46
Target: €14.00
P/E 07 12.09
Div Yield 07 1.8%
Next Event 12/07/07
Move on week -0.95%

BUY

This Thursday, **12th July**, **Grafton Group** will issue a trading statement for the 6 months ended 30/06/07. Given the c.15% fall in the share price in the last 6 weeks, there is the potential for the trading statement to provide some reassurance for investors and to act as a positive catalyst for the share price. Much of the recent share price weakness has been driven by fears in relation to the slowdown in new house building in Ireland this year. However, Irish merchanting business driven by new house building only represents c.15% of group profits. The other 85% of group profits would appear to be growing strongly currently, with increased Irish repair, maintenance and improvement (RMI) business and increased non-residential business more than offsetting the slowdown in Irish new housing, thus enabling the Irish merchanting business to achieve overall further sales growth this year. The release of SSIA funds should also help to drive further strong growth at the group's Irish DIY business, and the group's UK merchanting business, which contributes c.55% of group profits, should continue to benefit from market conditions which Grafton described as "buoyant" as recently as its May 2007 AGM.

British Airways

Current: £4.34
Target: £6.00
P/E 07 8.25
Div Yield 07 2.58%
Next Event 17/07/07
Move on Week +3.58%

BUY

Following the 25% fall in the **British Airways'** (BA) share price since its high of £5.77 on 14/02/07, the shares are now trading at 8.2x consensus current year eps of 53p for the year ending 31/03/08. Such an eps would represent year on year earnings growth of 69%. Given the volatility of network airline profits and their different capital structures, EV/EBITDAR is viewed as the most useful valuation metric. Given that the network airlines have historically traded in the 5x to 6x forward EV/EBITDAR range, we consider 5x as a fair multiple for BA. Based on 2007 EBITDAR of £1.8 bn and current net debt of c.£2.1 bn, this gives our current 12 month price target of £6 for each of the 1,151m shares in issue. Given that the major driver of BA's current year earnings growth is expected to be premium and long-haul passenger growth, the airline is somewhat protected from the substantial amount of new short-haul capacity and routes which Ryanair has launched in recent months. Another potential near term catalyst for the share price could be the group's AGM statement tomorrow week, **17th July**, and its Q1 results' announcement on Friday 3 weeks, 3rd August.

Aviva

Current: £7.64
Target: £9.00
P/E 07 8.68
Div Yield 07 4.28%
Next Event 13/07/07
Move on week +2.69%

BUY

This Friday, **13th July**, **Aviva** will release a trading statement for the 6 months ending 30/06/07. The statement is likely to confirm that the group is on target to generate 15% overall sales growth for 2007, driven by particularly strong international sales growth. In April, Aviva announced total life and pension sales of £7.75 bn for the 3 months ended 31/03/07, a year on year increase of 16%. This Q1 sales growth was driven by 25% growth from the international business, which now accounts for more than 50% of group sales following last August's \$2.9 bn cash acquisition of US life insurer, AmerUs Group. 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 would rate the shares at 1.6x 2006 EV per share of £5.73, a premium of c.10% to the current sector average.

AIB

Current: €20.84
Target: €24.50
P/E 07 10.27
Div Yield 07 3.80%
Next Event 01/08/07
Move on week +3.11%

Buy

Following the 7% fall in the **AIB** share price since the start of June, when the value of its 51.1m shares in Polish bank, BZWBK, and the value of its 26.7m shares in US bank, M&T, are taken into account, the group's core Irish, UK and Capital Markets businesses are now trading at c.8x 2007 earnings and at a price / book ratio of 1.8x. For a bank likely to generate double digit earnings growth in 2007 and 2008, and generating a return on equity in excess of 20%, such valuations indicate that the share price has limited further downside risk. The bank's recent H1 2007 trading statement confirmed that AIB remains on target to achieve low double digit earnings growth for 2007, driven by 20% loan growth, low bad debts representing only 0.15% of average loans, and income growth at least 3% stronger than cost growth in each of the operating divisions and for the group overall. Evidence of this continued strong earnings growth should be contained in the bank's H1 2007 results' announcement on Wednesday 3 weeks, **1st August**.

British Land

Current: £13.69
Target: £17.50
NAV 07 £16.82
Div Yield 07 2.54%
Next Event 13/07/07
Move on week +2.16%

Buy

Last week, **British Land** (BL) started buying buyback its own shares, stating that the gap that has recently opened up between sector share prices and real asset values is "too gloomy in its implied view of our prospects." The company expects to buyback up to £250m worth of its shares over the next 12 months, stating that it has completed or contracted on well over £1 bn of asset sales since its March year end, a process which should continue to drive growth in the group's net asset value (NAV). A potential near term positive catalyst for the share is the group's AGM statement this Friday, **13th July**, which should provide some reassurance that the UK office property market remains buoyant currently, and that the UK retail property market also remains solid. Further evidence of this should be contained in the group's NAV per share as at 30/06/07, when it is reported on 14th August, which should show further growth on the £16.82 reported as at 31/03/07. With the shares still trading at a 19% discount to this historic NAV, there is limited further downside risk for the share price from current levels.

This Week's Calendar Events

EARNINGS: MON (Bovis Homes, TS), TUES (Carrefour, Q2), (M&S, Q1), (Lufthansa, Traffic Figures), WED (Barrett Dev., I), (BSB, I), (Tullow Oil, TS), THUR (Grafton, TS), (Abbey, FY results), (M&T, Q2), (Iberia, TF), FRI (British Land, AGM), (C&C, AGM), (Aviva, TS)

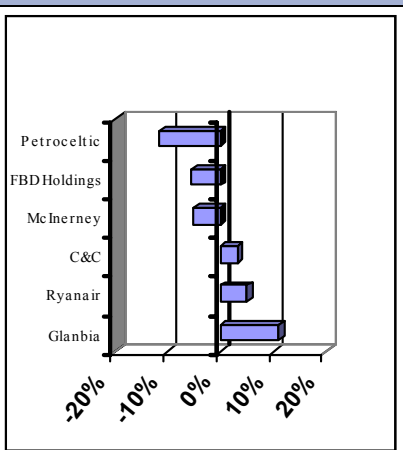
ECONOMIC DATA: MON (UK PPI, German Industrial Production), TUES (US Wholesale Inventories), THUR (Euro Zone GDP, Industrial Production, US Trade Balance, Jobless Claims), FRI (US Import Price Index, Retail Sales, Michigan Confidence, Business Inventories)

DOLMEN STOCKBROKERS Traders Update

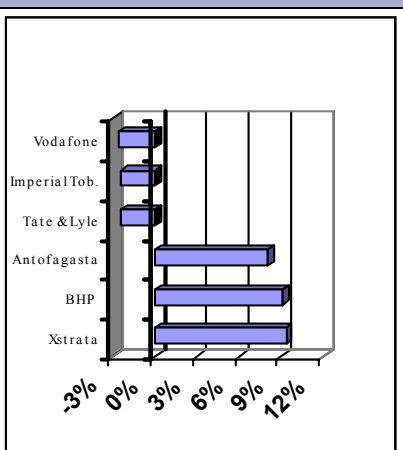
Last Weeks Best/ Worst Performers

02/07/07-06/07/07

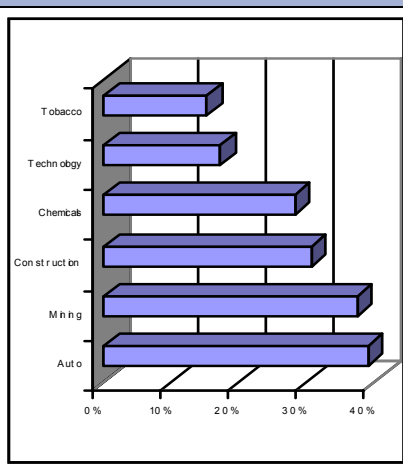
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	20.84	3.12%	-7.12%	Ahead of M&T's Q2 results on Thursday
Aviva	7.64	2.69%	-4.06%	Aviva forecasts £175m of claims from floods in the UK
BP	6.11	1.24%	11.04%	As oil trades close to \$73 per barrel
B. Land	13.72	2.39%	-18.70%	Ahead of the group's AGM on Friday
C&C	10.30	3.21%	-6.27%	Ahead of the group's AGM on Friday
CRH	37.74	3.03%	24.17%	Following numerous broker upgrades
GNC	5.45	-2.68%	19.15%	Gives back some recent strong gains
GSK	12.91	-1.07%	-1.74%	The group said it wants to enter Japan's vaccine market with Cervarix for cervical cancer
LAD	4.42	2.08%	9.02%	The company said that Telephone betting for 1H was up £45 from the same period last year
RBS	6.40	1.11%	1.58%	Press reports suggest RBS is to sell 15 hotels for £1bn
Ryanair	5.21	5.04%	-1.54%	There was speculation last week that Ryanair may be interested in Air Berlin
Vod	1.64	-2.68%	22.25%	May lose out on exclusive iPhone deal to Telefonica's O2

DD Unrealised gain YTD	4.09%	ISEQ YTD	-0.11%
DD Realised gain YTD	2.71%	FTSE YTD	8.65%
DD Total YTD	6.80%	Average performance	4.27%
Relative performance YTD	2.54%		

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

What it says in the 'Sundays'

- "ICG directors are accused of obstructing takeover bid" **ICG - Sunday Business Post**
- "CRH prepares for new chief as O'Mahony signals long goodbye" **CRH - Sun. Business Post**
- "O'Reilly, Goulandris must buy shares 50% above market value" **Waterford Wedgwood - Sunday Business Post**
- "Carroll goes flat out for Manor Park" **DCC - Sunday Times**
- "Insurer passes annual check-up" **Standard Life - Sunday Times**
- "IFG's bean counters beam" **IFG - Sunday Times**
- "Bulmer fights back in cider war" **C&C - Sunday Independent**

Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Bank of Ireland	-11.89%	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	37.16%	18/06/2007	Deputy Group Managing Director Geoff Meagher re-iterated recent guidance of double digit eps growth for 2007.
Persimmon	-24.00%	06/06/2007	Finance Director Mike Killoran told us that the company will continue to grow organically, however if it would be in a position to make further acquisitions as a result of its strong balance sheet.

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	9451	1.56%	0.46%	1.95%	14.93
FTSE 100	6690	1.24%	7.54%	3.54%	14.79
DAX	8048	0.51%	22.00%	2.43%	14.59
DJ INDUS. AVG	13605	1.34%	9.13%	2.09%	18.14
S&P 500	1528	1.47%	7.73%	1.76%	18.01
NASDAQ	2662	2.05%	10.21%	0.64%	40.35
DJ STOXX 50	3979	0.78%	7.59%	3.36%	14.39

Sector

	WEEKLY MOVE %	YTD MOVE %
Automobiles & Parts	0.18	38.98
Mining	6.71	37.35
Construction & Materials	0.24	30.68
Chemicals	0.87	28.24
Technology Hardware & Equipment	2.02	17.17
Tobacco	-1.40	15.19
Oil & Gas Producers	2.78	14.91
Leisure Goods	3.55	14.39
Media	0.37	11.19
Personal Goods	-1.07	10.13
Beverages	-0.60	7.88
Food Producers	0.77	5.06
Telecommunications	0.04	5.64
Gas, Water & Multiutilities	-0.56	1.70
Insurance	0.32	0.34
Pharmaceuticals & Biotechnology	0.54	-0.01
Banks	0.84	-0.55
General Retailers	-0.23	-2.40
General Industrials	2.76	-2.47
Software & Computer Services	-0.52	-10.00

Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$72.76	11.10%
Gold Spot	\$654.40	2.70%

Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.362	3.12%	1.35
EUR-GBP	0.677	0.52%	0.665
EUR-JPY	168.01	6.44%	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%	4.25%
UK	5.75%	6.00%
US	5.25%	5.25%

Credit Market Summary

Spreads widened another 5% on the high yield index this week from 225bps to 236bps while the investment grade index was unchanged. The recent widening in spreads has reportedly prompted a number of CDO's to ramp up, thereby taking advantage of the wider spreads. While this technical bid hasn't yet led to a tightening of spreads it is only reasonable to expect this is the likely scenario once spreads stabilize over the Summer and investors take advantage of these wider levels

Credit Sector Movements for week ended 06/07/07

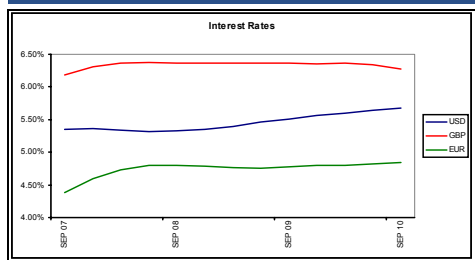
Airlines: Wider for the most part in the sector - biggest mover was BA, 8bps wider this week after the company announced a 1.4% fall in passenger traffic in June as a weaker USD affected demand for trans-Atlantic travel – BA reported a fall in traffic numbers every month, except Mar, this year.

Food/Beverages: Mixed in the sector – Cadbury widened 2bps on rumours that Coca Cola is considering a bid for Cadbury's Snapple unit, possibly making the neater Cadbury's attractive to takeover.

Telecoms: Mixed in the sector – BT was 1bp wider this week after reports that 25 analysts expect sales to increase only 2.5%, and despite protests from the CEO that this is too pessimistic he failed to provide a financial forecast. Vodafone was unchanged, despite rumours that Vodafone are now likely to lose the Iphone distribution deal to Telefonica's O2.

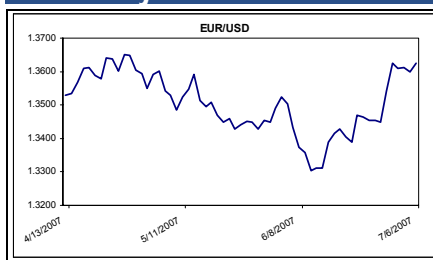
Retail: Wider across the board – Boots saw a huge widening this week, 93bps (32%) when KKR's LBO financing caused S & P to lower debt ratings 4 notches to BB-. KKR have leveraged Boots 80% - L + 275bps over 8 years are the terms currently under review.

Interest Rate Outlook

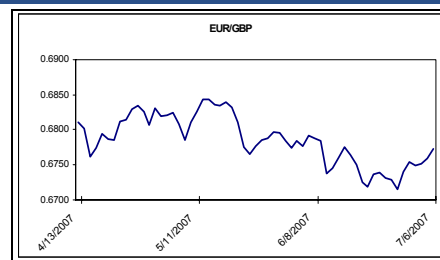


The yield on the US Ten-Year Treasury gained 16 basis points over the week to trade at 5.19% following better than expected ISM and nonfarm payrolls readings. Yields on German bunds also gained following hawkish comments from Trichet.

Currency Comment



The Euro continued to strengthen against the USD last week following Trichet's comments that monetary policy remains 'accommodative' and expectations are for a further rate rise to 4.25% in September. The USD will have a chance to rebound this week however with retail sales figures due for release on Friday.



The Euro continues to trade in a tight range with GBP as both central banks are expected to raise interest rates further.



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