



## Brief Market Comment

Global equity markets suffered their biggest declines since the sub-prime and China induced sell-off in March. The catalyst for the falls this time around was a sudden aversion to inflation, which resulted in a precipitous fall in bond markets. The intriguing thing about this bond and equity decline was that there was only one piece of inflation data released during the week, US Q1 Unit Labour Costs, and while this did come in stronger than expected following an in-line PCE Deflator reading the previous week, bond investors ran for cover. The knock on effect of this on equities is two-fold: firstly, the prospect of higher interest rates has implications for the credit market which has been fueling the recent M&A boom which in turn has driven equity markets higher, and secondly if the bond market is correct and inflation is set to rise further, then this will have a negative impact on investor returns.

If inflation is the focus for investors, then this week will be crucial for the future direction of bond and equity markets alike, with PPI and CPI readings due out of the US and UK and CPI being released out of Europe. Until we get these readings out of the way, expect further market volatility, and be disciplined in trading.

## Current Trading Ideas

### C&C

Current:	€11.20
Target:	€13.00
P/E 07	17.55
Div Yield 07	2.41%
Next Results	13/07/07
Move on week	-9.30%

### BUY

Following the recent sale of **C&C's** soft drinks division to Britvic for €249.2m, representing the attractive exit multiple of 19.2x operating profit of €13m after central costs, €150m of the proceeds are being applied to increase the group's previously announced share buy-back programme from €150m to €300m. This share buy-back programme, representing c.8% of the shares in issue at the current market price, is due to start this month and should help protect against significant further share price downside. Significant share price upside from current levels over the next 3 months is created by Magners continuing to increase its share of the UK LAD market. The next set of AC Nielsen on-trade data for the UK LAD market is due to be released around 16th/17th July. Progress by Magners' in its two new European markets of Spain and Germany could be another potential positive catalyst for the C&C share price later this year

### Ryanair

Current:	€4.86
Target:	€6.00
P/E 07	17.23
Div Yield 07	0.00%
Next Results	05/07/07
Move on week	-11.52%

### BUY

The share price of **Ryanair** sold off last week once again after further comments from the company concerning its current year yield (average fare) erosion. For the year ended 31/03/06, the airline's average fare was 7% higher year on year at €44.12, but the latest guidance is that for the year ending 31/03/08, this average fare could be "up to 5%" lower at €41.91. Under such a worst case scenario, current year eps growth of only 5% to 27.3c would be generated. However, even in the event of such a current year result, the share price would appear to have significant upside potential from current levels, as given the airline's continued medium term growth prospects (still targeting a doubling of profitability within 5 years), and given peer valuations, 20x current year eps has consistently proven a reliable multiple in generating achievable share price targets. Ryanair is also expected to start buying back up to €300m of its own shares in the market this week

### AIB

Current:	€21.04
Target:	€24.50
P/E 07	10.36
Div Yield 07	3.41%
Next Results	01/08/07
Move on week	-4.43%

### BUY

Following last week's 7% fall in the **AIB** share price, 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. Last week's 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.

### Taylor Woodrow

Current:	£4.12
Target:	£5.00
P/E 07	10.36
Div Yield 07	3.97%
Next Results	2/6/07
Move on week	-10.67%

### BUY

On 3<sup>rd</sup> July, George Wimpey shares will de-list and shares in Taylor Wimpey will start trading, giving effect to the nil premium merger between **Taylor Woodrow** (TW) and George Wimpey (GW). The proposed merger will result in TW shareholders owning 51% of the combined entity, and GW shareholders owning the remaining 49%. Substantial synergies of c. £100m per annum will be generated from combining TW's land bank with GW's build cost efficiency. Such synergies would result in a theoretical eps enhancement for TW of 12% in 2008 from 41p to 46p, and an eps enhancement of 22% in 2009 from 45p to 55p. This provides the basis for our initial 12 month price target for TW of £5, which is based on 9x 2009 eps of 55p. Given TW's superior landbank potential, there is a high probability of either Persimmon making a competing bid for TW or else waiting for the combined Taylor Wimpey group to be formed and then bidding for the combined group.

### British Land

Current:	£13.53
Target:	£17.50
NAV 07	16.82
Div Yield 07	1.96%
Next Results	15/08/07
Move on week	-7.90%

### BUY

Last week, Bank of Ireland Private Banking demonstrated strong confidence in the UK retail sector by investing €309m on behalf of its clients to acquire a 50% stake in the UK's 7th largest retail shopping center, the New Mersey Retail Park in Liverpool. The remaining 50% of the shopping center is being retained by Hercules Unit Trust, a trust managed and 36.6% owned by **British Land** (BL). As the 13% year on year growth in BL's NAV per share for the year ended 31/03/07 to £16.82 was primarily driven by its c.30% exposure to the fast-improving London office market, the BOI investment indicates that the fundamentals of the UK retail sector also remain solid. The move is also another example of BL accelerating its portfolio repositioning, which it committed to doing at the time of its full year results' announcement last month. Further such activity over the remainder of 2007 should help expose the significant discount to net asset value at which the shares are now trading.

## This Week's Calendar Events

**EARNINGS:** TUES (HBOS, Trading Statement), (Lehman Bros, Q2), WED (Alliance & Leicester, Trading Statement), THUR (Goldman Sachs, Q2), (Bear Sterns, Q2),

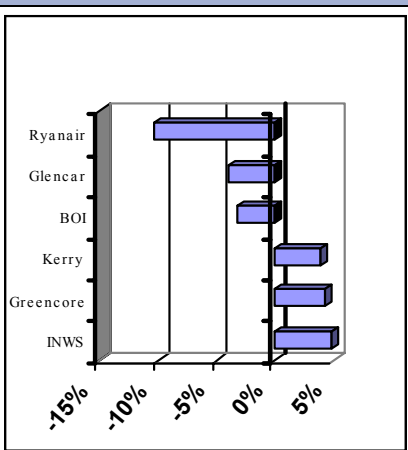
**ECONOMIC DATA:** Monday (UK PPI), Tuesday (UK CPI, RPI, Euro-Zone Industrial Production), Wednesday (UK Unemployment, Average Earnings, US Retail Sales, Import Price Index, Business Inventories, Fed Beige Book) Thursday (UK Retail Sales, Euro-Zone CPI, US PPI, Jobless Claims) Friday (US CPI, Empire Manufacturing, Industrial Production, Michigan Confidence).

# DOLMEN STOCKBROKERS Traders Update

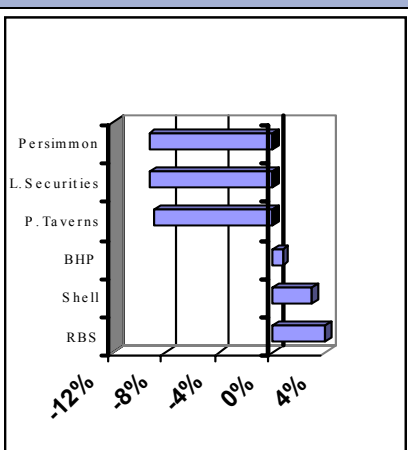
## Last Weeks Best/Worst Performers

01/06/07-08/06/07

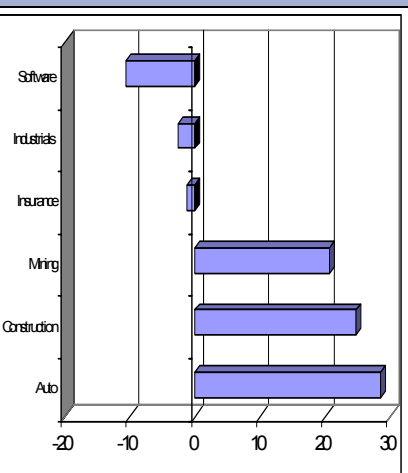
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD*	YTD*	RELEVANT NEWS
AIB	€21.04	-6.65%	-7.74%	Remains on target to achieve low double digit earnings growth for 2007
Aviva	£7.70	-4.70%	-3.24%	Agreed to merge its Turkish Life insurance and pension unit with Sabanci
BP	£5.63	-0.88%	2.48%	Oil price fell back to \$64.75 pb last week
B. Land	£13.53	-7.33%	-20.06%	Recently reported FY pretax profit of £1.44bn versus £1.5bn last year
C&C	€11.20	-9.31%	-0.73%	Press reports suggest the company may sell its wine distribution business Findlater Grants
CRH	€35.58	-4.74%	15.63%	Has overtaken AIB as the largest company on the ISEQ
GNC	€5.03	4.79%	11.15%	Press reports suggest Liam Carroll has increased his stake to 29.9%
GSK	£12.96	0.31%	-1.36%	FDA wants GSK's diabetes drug Avandia to carry strongest warning for heart failure
Lad	£4.03	-1.23%	0.12%	Norwegian government must prove need for gaming limits on Ladbrokes
RBS	£6.57	3.96%	3.39%	ABN Amro's CEO said it is too early to judge whether Barclays or the RBS consortium led bid is better for the company
Ryanair	€4.86	-10.33%	-8.73%	EasyJet announced that it flew 14% more passengers in May
Vod	£1.60	-1.84%	17.97%	Vodafone Investor ECS wants the company to return up to £38bn to shareholders
DD Unrealised gain YTD			0.89%	ISEQ YTD
DD Realised gain YTD			2.71%	FTSE YTD
DD Total YTD			3.60%	Average performance
Relative performance YTD			1.02%	

\* Total Return (Includes dividends & FX changes)

### What it says in the 'Sundays'

- "O'Leary's gloomy forecast dropped the Ryanair share price" **Ryanair - Sunday Business Post**
- "Carroll at the core of the action" **Greencore - Sunday Business Post**
- "Excess Baggage" **Ryanair - Sunday Times**
- "Computer giant is back on line" **Dell - Sunday Times**
- "O'Brien's ready to rumble" **Independent News & Media - Sunday Times**
- "CRH slugs it out to buy €1 bn German firm" **CRH - Sunday Independent**
- "Investors set for takeover windfall?" **Vodafone - Sunday Tribune**
- "Mulls buyback of Ryanair shares" **Aer Lingus - Sunday Tribune**

### Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
C&C	-15.91%	9/5/2007	CEO Maurice Pratt said not to expect any news on the two test market until October. Upping their dividend payout ratio close to 50%.
Kingspan	4.38%	9/5/07	Only 8% of group earnings are exposed to the Irish new housing market. A buoyant UK market more than offsets this.
Persimmon	-18.15%	6/6/07	CFO M. Killoran said the company will continue to grow organically, however it is 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	9382	-4.80%	-0.28%	2.17%	15.64
FTSE 100	6505	-2.57%	4.57%	3.65%	13.69
DAX	7591	-4.97%	15.06%	2.93%	13.86
DOW JONES	13297	-2.75%	6.65%	2.14%	17.74
S&P 500	1494	-2.79%	5.31%	1.79%	17.54
NASDAQ	2554	-2.31%	5.72%	0.66%	38.58
DJ STOXX 50	3855	-2.95%	4.28%	3.45%	13.45

## Sector

	WEEKLY MOVE %	YTD MOVE %
Autos	-5.33	28.43
Construction	-3.42	24.61
Mining	-4.2	20.66
Chemicals	-4.87	13.65
Technology	-2.52	12.81
Media	-4.29	11.33
Tobacco	-3.58	11.05
Personal Goods	-3.22	9.55
Leisure Goods	-1.05	8.54
Telecoms	-4.11	5.24
Oil & Gas	-0.69	5.04
Beverages	-4.37	4.64
Food Producers	-3.27	3.12
General Retailers	-4.57	1.69
Utilities	-5.88	1.13
Banks	-3.29	0.48
Pharmaceuticals	-2.88	-1.17
Insurance	-1.89	-1.19
General Industrials	-6.15	-2.66
Software	-2.41	-10.61

## Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$64.81	-0.32%
Gold Spot	\$645.00	1.50%

## Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.3351	1.14%	1.35
EUR-GBP	0.6797	0.86%	0.665
EUR-JPY	162.48	3.27%	145

## GDP Growth

	YEAR END 06	YEAR END07(E)
Ireland	7.70%	5.00%
Euro Zone	2.70%	2.50%
UK	2.90%	3.00%
US	3.00%	2.00%

## Central Bank Interest Rates

	CURRENT	YEAR END(E)
Ireland	4.00%	4.25%
Euro Zone	4.00%	4.25%
UK	5.50%	5.75%
US	5.25%	5.25%

## Credit Market Summary

Spreads widened significantly this week as rate concerns triggered a sell off from the safe haven of government bonds, causing the 10 year treasury yield to rise to 5.17% Friday afternoon, while the 10 year bund increased above the critical 4.5% level to 4.58% by the end of the week. This rate concern spread to the credit market where both the investment grade and high yield indices widened to reflect investor's perceived increase in risk. IG index widened 2bps (9%) to 22bps; while the high yield index widened 20bps (10%) to 210bps.

## Credit Sector Movements for week ended 08/06/07

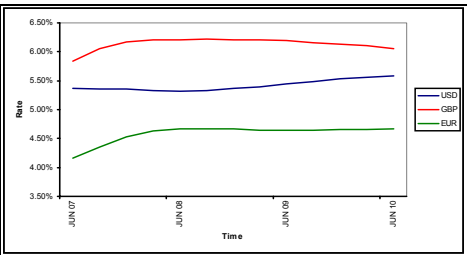
**Automakers:** Both BMW and VW tightening 1bps. BMW announced an 8.7% increase in sales in the month of May; with higher sales in the new SUV and Mini models. VW reported a 10% increase in global VW sales, with a notable 10% increase in Audi sales in the China market for May.

**Building materials:** LaFarge, widening 1bps this week following reports this week that the company might be interested in purchasing Tarmac, the building materials unit of Anglo American.

**Airlines:** Both Deutsche Lufthansa and British Airways tightening earlier in the week, only to end the week 1bps wider each. Sentiment towards both LHA and BA worsened after Ryanair reduced earnings growth projections

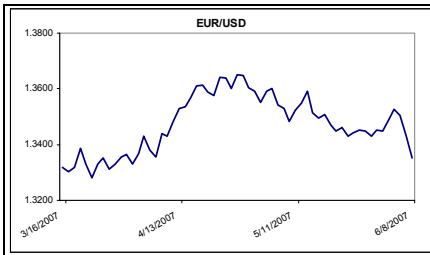
**Telecom:** Vodafone was the biggest movers, widening 2bps (6%) this week, taking the spreads back to early April levels, on rumours of shareholder activism encouraging a break up of the company.

## Interest Rate Outlook

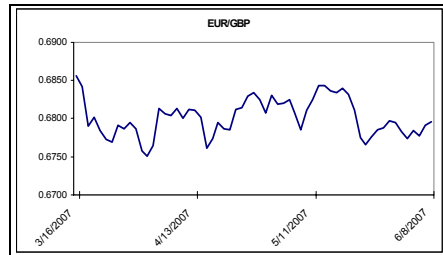


Bond markets continued their March lower last week with European 10 year yields breaking through the 4.50% level, as US yields jumped to one-year highs. With such a significant move last week traders may look for a period of consolidation this week as the market passes for breath however with so much in the way of economic data of the US some volatility can be expected.

## Currency Comment



The USD remained strong last week as US treasury yields continued their move higher making USD denominated assets more attractive to investors. This week traders will focus on the raft of economic data out of the US, with CPI and PPI the main focus later in the week. With rates in the US continuing to move higher the USD is expected to remain stronger in the coming days.



As expected the ECB raised rates by 25bps and the BoE remained on hold, as such EurGbp remained in a tight range for the whole week, with no piece of news surprising the market. With both inflation and CPI data out of the UK this week we expected GBP to strengthen against the Euro.



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