



The Non-Manufacturing ISM reading out of the US is not usually one that could be called a market-moving number. Measuring the level of activity amongst purchasing managers in the services side of the economy, it is also a reasonable barometer of how the overall economy is doing, given that the services sector accounts for almost 80% of US economic activity. The release last Tuesday of a reading of 41.9 compared to expectations of 53, was the weakest reading since 9/11 and heightened concerns that recession was close at hand if not already present in the US economy. While this may very well prove to be a rogue number, it clearly indicates that the US economy is continuing to slow. The read-across for equities from this is that businesses are not spending or are cutting back on spending plans. Part of this can be explained by natural belt-tightening as sentiment turns negative, but more likely to the tighter lending policies on offer from banks. The focus therefore falls on earnings, and how likely are the expected to grow. For quarters 1 and 2 EPS growth expectations have been trimmed to 1% from 4/5% previously, but with a recovery expected in the second half of the year as the rate cuts kick in. In this environment, investors should focus on sectors and stocks with stable earnings such as telecoms, utilities, oil & gas, and personal & household goods.

TRADING IDEAS, EARNINGS & PREVIEWS

Economic view : Last week, the ECB left interest rates on hold at 4.00% as expected, however at the press conference Jean Claude Trichet's comments were notably less hawkish than previous with focus now shifting to downside risks to Euro-Zone economic growth. The market currently expects the ECB to lower rates by up to 0.75% to 3.25% by the end of the year, with the first of these rate cuts taking place in April or May. Elsewhere, the Bank of England (BoE) reduced its interest rate by 0.25% to 5.25%. The BoE issued a balanced statement with regards to economic growth and inflation implying that monetary easing will be more gradual than previously expected. Expectations are that the BoE will lower rates to 4.50% by the end of the year. It should also be noted that expected lower interest rates in the US, Europe and UK which has led to a steepening in the yield curve which is positive for the future earnings prospects of banks which in general fund themselves at short term rates and lend to borrowers at longer term rates.

BOI

Price: €9.61
P/E: 6.2x
Div: 7%
Target: €12.4

Fundamental view : This Friday, 15th February, **Bank of Ireland (BOI)** will update the market on its financial performance by releasing an Interim Management Statement as required by the EU Transparency Directive. The trading statement should confirm that the group remains on course to achieve high single digit earnings growth for the year ending 31/03/08, in line with our forecast for a current year eps of €1.55. Even though the bank may not issue forward earnings guidance until its full year results' announcement on 21st May, the recent reduction in short term interbank funding rates could provide the basis for a reassuring update, given that c.46% of the bank's total loan book is residential mortgages.

Next catalyst : In addition to Friday's trading update, the full year results' announcements of several of the UK banks later this month, as well as AIB's full year results' announcement on 20th February, could provide potential positive catalysts for the BOI share price in the short term, given that it is currently trading at only 6.2x current year eps of €1.55. The shares also now pay a current year dividend yield of c.7%, with a final dividend of c.41c per share going ex on 28/05/08.

Chart view: A move above €10.50 will break the downtrend and turn chart sentiment positive.

Ryanair

Price: €3.51
P/E: 11.3x
Div: N/A
Target: €6.20

Fundamental view : Last week, even though **Ryanair** re-iterated its current year earnings guidance for 17.5% net profit and eps growth to €470m and 31.5c respectively, it talked about a potential "perfect storm" that could lie ahead for the European airline industry over the following 12 months. As a result, it issued a massive net profit range of between €500m (c.35c per share) and €235m (c.16c per share) for the year ending 31/03/09. Our view is that the Irish airline will generate a net profit of €445m for this period, 5% lower year on year, and representing a largely flat year on year forward eps of 31c, post the new buyback.

Next catalyst : A new share buyback programme of up to €200m was announced, starting after 6th February, which if completed for cancellation at an average price of €3.60, would reduce the number of shares in issue by c.3%. This buyback is expected to be completed between now and the airline's full year results' announcement on 3rd June, which should limit further downside risk for the share price between now and then. The yield outlook becoming a little more robust at that stage could act as a major positive catalyst for the share price from current levels. A rating of c.11x current year and forward eps would appear to provide an attractive entry level into an airline with strong medium term earnings growth prospects.

Chart view: A move above €3.95 would break the downtrend with an initial upside target of €4.30.

Coca-Cola

Price: \$59.25
P/E: 22.1x
Div: 2.30%
Target: \$68

Fundamental view : Shares in **Coca-Cola** have outperformed that Dow Jones this year by c. 5% due to its defensive qualities and strong growth prospects particularly from overseas markets. Over the last number of years Coca-Cola has increased its focus on selling products overseas and to emerging markets generating 80% of its operating profits. While the significant international exposure should benefit the company due to the weak US dollar it is the strong growth prospects from emerging market economies that should help drive profit growth into the future.

Next Catalyst : Last week Coca-Cola's closest peer Pepsi reported a strong set of fourth quarter results and also issued a positive outlook for 2008 which should bode well for Coca-Cola's fourth quarter results due this Wednesday. We expect the group to report a 6% rise in EPS to \$0.55 with revenue increasing by 18% to \$6.9bn. Another major catalyst for Coca-Cola is that it is one of the lead sponsors of 2008 Olympics in Beijing which should help provide a significant boost to the rollout of its products in China.

Chart view: Stock has formed a support base at its 200 day moving average and looks set to move higher.

Tesco

Price: 389p
P/E: 15.3x
Div: 1%
Target: 500p

Fundamental view : **Tesco** recently issued its interim management statement encompassing the Christmas trading period. Total UK like for like sales increased by 3.1% which was slightly below expectations of 3.5%-4.0%. While the UK performance was slightly disappointing, Tesco's international division produced revenue growth of 26.9%, beating consensus estimates of 22%-25%. Tesco has been increasing its international exposure over the last number of year in particular to high growth emerging markets. International sales now represent 26% of total group sales.

Next catalyst : The next major catalyst for Tesco will be on April 15th when the group is due to report its full-year results. While the UK consumer is clearly under pressure at the moment, although this will be alleviated somewhat due to interest rate cuts, it is the group's increasing overseas exposure that will help drive profit growth.

Chart view: A sustained move above 400 will suggest that that the longer term uptrend may be continued.

Short Adidas

Price: €42.11p
P/E: 15.6x
Div: 1%
Target: €38.60
Stop loss: €44

Fundamental view : **Adidas** shares have declined 10.6% in the last 3 months. This represents an outperformance in comparison to the Eurostoxx 50 which is down 16.6% respectively, over the same period. This is despite Adidas being a producer of consumer discretionary sporting goods, and the significant weakening in consumer figures in recent months. Adidas's two main markets, Europe and U.S., which account for 42% and 33% of revenues respectively, have been worst hit by recent consumer sentiment, and this trend is unlikely to reverse in the short term. Adidas trades at a price multiple of 15.6x and dividend yield of 1% compared with 10.2x and a yield of 4.17% for the Eurostoxx 50. This rating has been achieved by forecasted growth which is greater than its peers, any downward revision, or negative comments by management should impact the price significantly.

Next catalyst : The next catalyst for Adidas, is their 2007 full year results which is set for March 5th. Any miss on earnings or a poor outlook on 2008 guidance could lead to significant decline in the share price. Additionally, any poor consumer data releases will weigh heavily on the stock. We recommend initiating a stop loss at €44 with this trade.

Chart view: Medium term uptrend has been broken and momentum is weak. January lows likely to be retested.

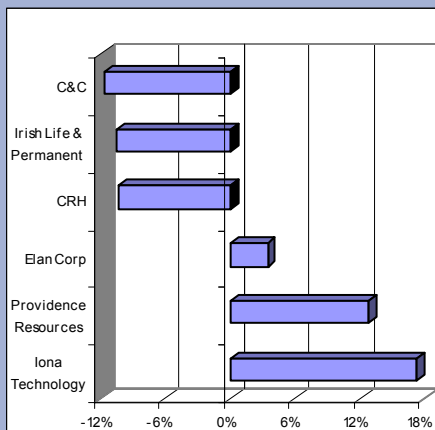
EARNINGS: TUES (888, TS) (Credit Suisse, YF) WED (Smurfit, FY) (Brit Energy, TS) (Liberty, TS) (Coca Cola, Q4) (Bradford & Bingley, Prelim) (Rio Tinto, YF) THURS (Air France, TS) (Commerzbank, TS) (Danone, YF) (Swedbank, TS) (Diageo, TS) (Lafarge, TS) (Greencore, AGM) (L'Oreal, YF) (Daimler, YF) (UBS, Q4)

ECONOMIC: Monday (UK PPI), Tuesday (UK CPI, RPI, German ZEW), Wednesday (UK Unemployment, Euro-Zone Industrial production, BoE Inflation Report, US Retail Sales, Business Inventories) Thursday (Euro-Zone GDP, US Trade Balance, Jobless Claims), Friday (US Import Price Index, Empire Manufacturing, Industrial Production, Michigan Confidence)

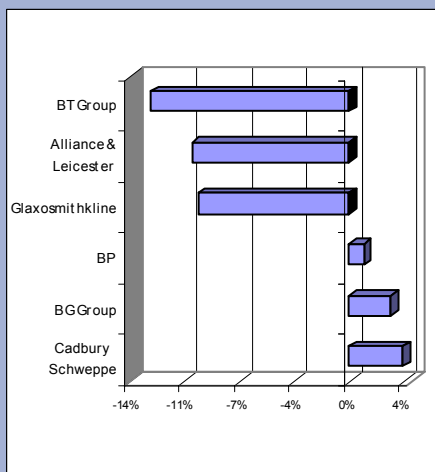
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/
Worst Performers
01/02/08-08/02/08

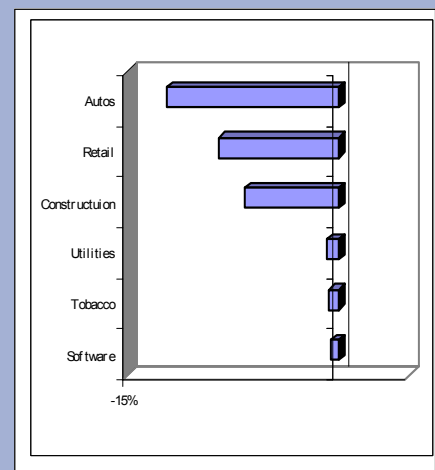
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	WTD	Relevant news
AIB	-4.7%	A.I.B forecast 50,000 housing completions in 2008.
Aviva	-6.5%	Aviva posted a 22% rise in 2007 sales, above forecasts.
BP	0.9%	BP's posted a 53% rise in Q4 net profit.
Coca Cola	0.0%	Coca-Cola acquires 40% stake in Honest tea and Bear Stearns raises Coke to outperform from peers.
CRH	-10.2%	US highway spending increases by 3.1% in December; 4% in the full year.
Hewlett Packard	-5.7%	HP introduces advanced family of disk arrays at entry-level prices.
IAWS	-5.1%	Ralcorp's organic sales grew 4% in Q4.
IL&P	-9.8%	CEO, Denis Casey, says the decline in Irish banking shares represents a "huge overreaction".
Microsoft	-6.2%	CFO sees double-digit growth sales growth in fiscal 2009.
Paddy Power	4.2%	Peer Ladbrokes acquires 54 shops in Northern Ireland.
Ryanair	-3.0%	Ryanair re-iterate current year earnings guidance for 2008.
Vodafone	-3.9%	Vodafone cuts business travellers roaming tariff.

DD Unrealised gain YTD	-6.43%	ISEQ YTD	-5.72%
DD Realised gain YTD	-10.55%	FTSE YTD	-10.42%
DD Total YTD	<u>-11.21%</u>	Average performance	<u>-8.07%</u>
Relative Performance		<u>-3.14%</u>	

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

What it says in the 'Sundays'

Company	Paper	Headline
Iona	S. Independent	"Estate agents have seen a pick-up in inquiries"
	S. Tribune	"\$315m US trophy property deal"
	S. Times	"Software AG leads Iona chase"
Daimler	S. Times	"It's leaving the pack in its dust"
	S. Business Post	"Weak Sterling adds to downward spiral"
Ryanair	S. Business Post	"Ryanair well placed to ride out the storm"

Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
Upcoming Corporate visits : Over the next few months we will have a number of Irish and International companies presenting to US. Paddy Power have confirmed that they will present to US in May, while IAWs have said they will present to us after their results in March. We also expect to have the Irish management of Intel, Microsoft and Hewlett-Packard in to speak with us.			
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



Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Div Yield	P/E
ISEQ	6538	-4.4%	-5.7%	2.9%	9.5
FTSE 100	5784	-4.1%	-10.4%	4.2%	10.9
DAX	6767	-2.9%	-16.1%	2.9%	11.7
Dow Jones	12182	-4.4%	-8.2%	2.5%	14.6
S&P 500	1331	-4.6%	-9.3%	2.1%	18.1
Nasdaq	2305	-4.5%	-13.1%	0.9%	32.4
EuroStoxx 50	3168	-4.0%	-14.0%	4.2%	10.2
Nikkei 225	13017	-3.6%	-15.0%	1.6%	15.4

Sector

	Weekly move%	YTD move%
Software	-0.51	-6.74
Tobacco	-0.67	-9.18
Gas, Water & Multiutilities	-0.86	-8.45
Mining	-1.33	-3.04
Beverages	-1.60	-7.12
Leisure Goods	-1.98	-11.18
Insurance	-2.08	-15.82
Oil & Gas Producers	-2.13	-13.08
Technology	-2.98	-12.25
Chemicals	-3.05	-10.20
Personal Goods	-3.10	-17.03
Telecommunications	-3.47	-9.98
General Industrials	-4.88	-2.27
Pharmaceuticals	-5.31	-15.68
Media	-5.58	-11.19
Food Producers	-5.70	-7.76
Banks	-6.09	-12.89
Construction & Materials	-6.64	-18.48
General Retailers	-6.67	-18.51
Automobiles & Parts	-12.08	-30.62

Commodities

	Current	Change YTD
Crude Oil	\$91.77	-4.2%
Gold spot	\$922.99	+10.7%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.4501	-0.6%	1.55
EUR-GBP	0.746	+1.4%	0.75
EUR-JPY	155.7	-4.4%	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%	4.33%	3.25%
UK	5.25%	5.60%	4.50%
US	3.00%	3.08%	2.00%

Credit Market Summary

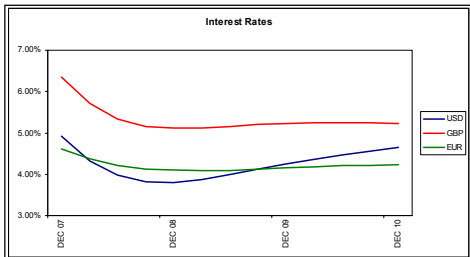
A very bearish week for credit, with spreads widening 12% this week from 462bps to 530bps by Friday (spreads are 34% wider since January 1st). Rumours of an unwind in investment grade structured credit products hit markets hard on Friday and spilling over into equity markets. Elsewhere Monoline/bond insurers remain the focal point for credit markets, with bailout talks continuing time pressures remain for a solution by the end of the month, while at the same time rating agencies downgrade another insurer, XP Capital, 6 notches from AAA to single A, indicating there is no let-up in pressure on monoliners.

Credit Sector Movements

Building materials: Mixed in the sector – La Farge was the biggest mover again this week, widening 16% to 159bps (traded at 30bps pre-crisis) after newspaper reports that Albert Frere's investment company now own 18% of the company, and are targeting 25%. The only other mover was Saint Gobain which was 8% wider this week after another investment firm Wendel is said to be considering raising its stake in the company.

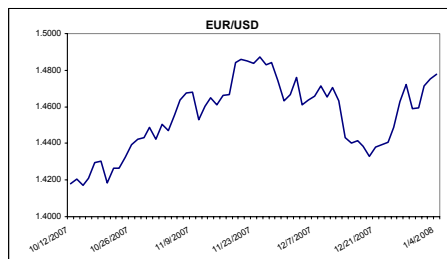
Food/Beverages: Mixed in sector – Diageo saw the biggest move this week with an 11bps widening ahead of result on February 14th. The company announced a joint venture with Ketel One vodka this week. Elsewhere Cadbury's was 4.5% wider after JPM identified Cadbury as a possible take out candidate. Compass was unchanged.

Interest Rate Outlook

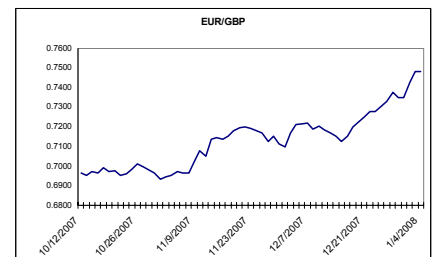


Shorter dated bonds were pushed higher during the week in both the US and Europe on expectations of lower interest rates. The two-year Treasury yield fell by 12bp to 1.97%, taking the gap between the two and 10-year yields to its widest since September 2004. In Europe the yield on the two-year Schatz tumbled by 29bp to 3.09%.

Currency Comment



The Euro suffered its biggest weekly decline against the dollar for 18 months as the ECB appeared to give way to mounting pressure to soften its stance on interest rates. Key this week will be US retail sales due for release on Wednesday. A weak number here could see the dollar pare its recent gains and against the Euro.



The Euro also weakened against Sterling last week both on the ECB's less hawkish tone and also on the Bank of England's comments that inflation is still a major concern for the central bank indicating that future interest rate cuts may be more gradual than previously expected. Key this week will be the BoE's quarterly inflation report due on Wednesday.



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