

# Traders Update

MONDAY 12TH NOVEMBER 2007

## Market Comment

The drip, drip, drip of news flow in the banking and credit market continued last week, with each disclosure, or in the case of the UK banks, the lack of disclosure, as bad as the previous one. For the equity markets this is the worst case scenario, for to para-phrase Donald Rumsfeld, there are 'known unknowns'. And therein lies the nub for equity markets; everyone knows there are further disclosures to come, but no one knows just how bad they will be. As if this wasn't bad enough, our recent investor conference theme of policy vacuum in markets was admirably highlighted by Mr. Bernanke last week, when once again he left the market trying to second-guess the Fed's next move. Confidence is fragile at this point in time, and with growing concerns about the whole financial cost of sub-prime and excessive risk taking, and uncertainty as to when some clarity may appear, the markets look vulnerable to further downward pressure particularly if US Retail Sales data on Wednesday shows any sign of weakness and if the Capital Inflow Data on Friday exerts even more downward pressure on the dollar.

## TRADING IDEAS, EARNINGS & PREVIEWS

**Bol**  
 Current : €10.30  
 P/E 07 : 6.4x  
 Target : €17.50  
**BUY**

On Wednesday, Bank of Ireland (Bol) is due to release its interim results for the period ending 30/09/07. The group is expected to report underlying EPS growth of 13% to 82.5c, keeping the group on course to report a full year eps of €1.60, representing yoy growth of 11%. Bol's recent trading statement confirmed that the impact of the recent credit market turmoil would be 'modest'. Credit quality across the group remains excellent, with the annualised loan loss charge for the group expected to be in the 'low double-digit' basis point range only a slight increase on the 9 basis point charge last year. Despite generating double digit earnings growth this year, Bol is trading at only 6.4x current year EPS, paying a dividend of c. 6.6%.

**HP**  
 Current Price : \$48.39  
 P/E 08 : 14.8x  
 Target : \$59.00  
**BUY**

One of the best performing sectors this year, technology, fell foul to the US subprime crisis with the Nasdaq falling by 9% following Cisco's warning that the US subprime crisis will have an effect on US corporate spending. However this should be taken in context given that the majority of Cisco's revenue is generated in the US. On 19/11/2007, Hewlett-Packard (HP) is due to release results for its fourth quarter. The group is expected to report a 21% rise in EPS to \$0.82, while revenue is expected to grow by 11% to \$27.4bn. HP should be well insulated from the US subprime crisis given that the company generates 65% of its revenue outside of the US. Strong results from Intel and Microsoft also indicate that demand for PCs and notebooks are strong with both companies recently raising guidance.

**Coca-Cola**  
 Current : \$60.83  
 P/E 07 : 22.8x  
 Div 07 : 2.4%  
**BUY**

Following last weeks sell-off in equity markets, shares in Coca-Cola held up well adding 1%. Coca-Cola is the world's largest brand and is benefitting from the weak US dollar as 70% of group profits come from outside of the US. Coca-Cola is also expanding its product base to include healthier products a point that was emphasised with its recent purchase of vitamin drinks group Glaceau for \$4.1bn. What should also underpin the group's growth prospects is that it is one of the main sponsors for the 2008 Beijing Olympics which will further help the rollout of its products in Asia next year. The group currently trades at a 20% premium to its peer group, which is below the 40% premium it has historically traded at. Shares in Coca-Cola represent an attractive buying opportunity at current levels.

**Vodafone**  
 Current : £1.79  
 P/E 08 : 16x  
 Target : £1.80  
**BUY**

Tomorrow, Vodafone is due to report interim results for the period ending 30/09/2007. We expect Vodafone to report a 3% rise in EBITDA to £6.4bn with revenue showing an 8% increase to £16.9bn. We also expect Vodafone to issue a positive outlook for the rest of the year and at least reiterated its previous revenue growth target for 2008 of 10% to £34.2bn. Recent third quarter results from peers, France Telecom and Deutsche Telekom suggest that European subscriber growth has remained robust and margins have remained stable. What should also benefit Vodafone's future growth prospects is its increasing exposure to emerging market economies where it has been acquiring assets in India, Turkey and S. Africa.

**Ladbrokes**  
 Current : £3.71  
 P/E 07 : 10.9x  
**BUY**

This Thursday the 15/11/07 Ladbrokes will release a trading statement. We are expecting the company to confirm that it is trading in line with expectations and state that it is confident of meeting full year guidance. In recent weeks Partygaming, 888 and Sportingbet have all release positive results with strong emphasis been put on the strength of the sports betting books, this along with what should have been a positive Rugby World Cup augurs well for the company. Our current 12 month price target of £4.80 (29% upside) is based on 15x 2007 eps of 32p a share.

**Ryanair**  
 Current : €5.10  
 P/E 07 : 16.6x  
 Div 07 : 0.0%  
 Target : €6.50  
**BUY**

Last Monday Ryanair reported a solid set of 2Q results and has also raised its outlook for the rest of the year. Net profit rose by 26% to €268.7m beating analyst expectations of €260m. As a result of its strong results, Ryanair also raised its profit growth target for the year ending 31/03/08 to 17.5% from 10% previously due to better than expected yields. One of the main highlights from Ryanair's earnings report was the exceptional growth in its ancillary revenue. Ancillary revenue grew by 54% to €252m boosted by improved penetration of car hire, hotels, travel insurance as well as strong onboard sales and excess baggage revenue. Ancillaries now account for c. 16% of total group revenue and is closing in on the group's target of 20%. Ryanair also confirmed that its in-flight mobile phone service will be tested on 25 aircraft before the end of March. Following Ryanair's strong results and positive outlook for the rest of the year we are raising our 12-month price target to €6.50. Our new price target is based on the group trading at 20x fiscal 2009 EPS of 32.5c.

**CRH**  
 Current : €24.40  
 P/E 07 : 9.4x  
 Div 07 : 2.4%  
 Target : €40.00  
**BUY**

Last week a number of CRH's peers reported results. Lafarge's Q3 net income rose by 9% and stated that it is confident regarding its outlook and said it expects to exceed full year expectations. On of the key points was the strong growth in its North American division especially cement and Aggregates/Concrete. With only c.30% of CRH's US earnings coming from the residential sector this bodes well for the company. Holcim also reported strong results with 9 month sales growth of c.16% and also stating that it expects to exceed full year expectations. CRH is now trading at 9.4x earnings, a significant discount to its US peers who are trading at c.17x earnings and its European peers trading at c.12x earnings.

| Company          | Current Price | Market Cap (m) | Change YTD | P/E 07 | EV:EBITDA | Current Credit Spread | Pre-crisis Credit Spread |
|------------------|---------------|----------------|------------|--------|-----------|-----------------------|--------------------------|
| CRH              | €24.40        | €13,341        | -21.21%    | 9.4    | 6.25      | 69bps                 | 42bps                    |
| Lafarge          | €109.31       | €18,709        | -2.85%     | 11.47  | 7.26      | 62.5bps               | 23bps                    |
| Holcim           | CHF126.50     | CHF33,290.92   | 13.52%     | 13.25  | 5.68      | 44.5bps               | 22bps                    |
| St Gobain        | €70.00        | €26,179        | 9.07%      | 12.61  | 6.75      | 61bps                 | 23bps                    |
| HeidelbergCement | €107.36       | €12,883        | -4.43%     | 11.88  | 7.29      | 106bps                | 39bps                    |
| Martin Marietta  | \$120.48      | \$5,066        | 16.47%     | 19.21  | 9.83      | 38.5bps               | N/A                      |
| Vulcan Materials | \$80.16       | \$7,714        | -10.20%    | 16.2   | 8.31      | 52.5bps               | 29bps                    |

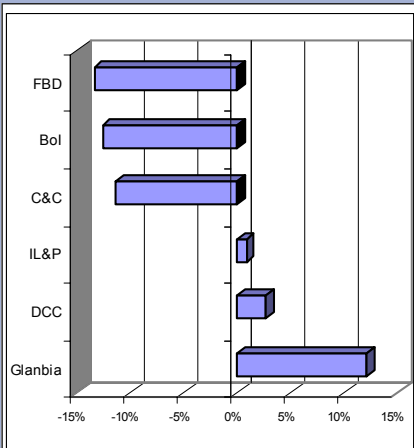
**Week's Events** **EARNINGS:** Mon (Premier Foods Trading), Tues (Cable & Wireless H1) (Vodafone H1) (DCC H1) (Wal-Mart Q3) (Home Depot Q3), Wednesday (Bank of Ireland H1) (Sainsbury H1) (Land Securities H1), Thursday (British Land H1) (WH Smith Trading) (Ladbrokes Trading) (SABMiller H1) (Starbucks Q4).

**ECONOMIC DATA:** Monday (UK PPI), Tuesday (UK CPI, RPI, German ZEW, US Pending Home Sales), Wednesday (UK Unemployment Rate, Eurozone GDP, Bank of England Inflation Report, US PPI, Retail Sales, Business Inventories), Thursday (UK Retail Sales, Eurozone

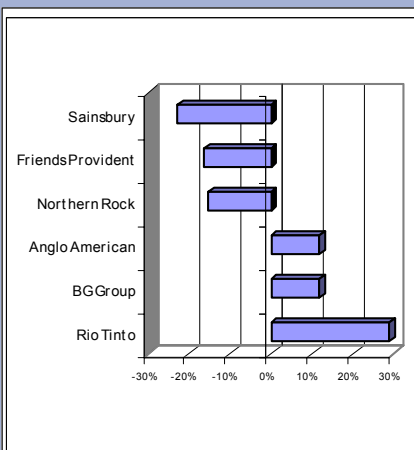
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers 05/11/07-09/11/07

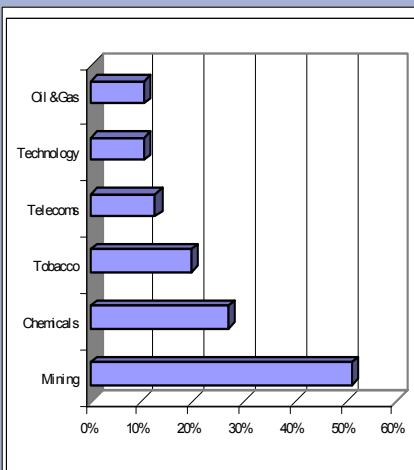
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen WEEKLY UPDATE

| Company   | WTD    | DD Return* | Relevant news  |
|-----------|--------|------------|--|
| AIB       | -9.5%  | -30.9%     | M&T bank announced Q3 results with eps of \$1.92 c.1% below market consensus forecast of \$1.94      |
| Aviva     | -8.5%  | -11.3%     | Aviva is aiming to cut costs by £350m by the end of 09 in a move that could lead to further job cuts |
| BP        | -4.5%  | +10.8%     | Announced results recently with underlying replacement cost net profit 2% ahead of consensus         |
| CRH       | -3.4%  | -20.3%     | A number of European peers announced results last week, all beat expectations.                       |
| Greencore | -6.6%  | +4.8%      | Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations   |
| GSK       | -2.0%  | -10.6%     | Recently announced Q3 results with EPS of 23.7p, c.1% below consensus forecasts                      |
| IL&P      | +0.9%  | -19.4%     | Continued weakness due to its large exposure to the Irish housing market                             |
| Ladbrokes | -7.7%  | -5.8%      | Ahead of the company's trading statement later this week   |
| RBS       | -15.9% | -30.6%     | Due to fears over its credit quality   |
| Ryanair   | -8.6%  | +3.7%      | Ryanairs Q2 results beat expectations and the company raised its full year guidance                  |
| SAP       | -3.5%  | -12.7%     | Announced that it will not bid for BAE systems following Oracle withdrawal last week                 |
| Vodafone  | -0.6%  | +30.3%     | Ahead of interim results on Tuesday  |

|                        |               |                     |                |
|------------------------|---------------|---------------------|----------------|
| DD Unrealised gain YTD | -6.93%        | ISEQ YTD            | -21.95%        |
| DD Realised gain YTD   | -2.96%        | FTSE YTD            | -0.68%         |
| DD Total YTD           | <u>-9.88%</u> | Average performance | <u>-11.32%</u> |
| Relative Performance   |               | <u>1.43%</u>        |                |

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

### What it says in the 'Sundays'

| Company                | Paper                       | Headline   |
|------------------------|-----------------------------|--|
| <b>Banco Santander</b> | <b>Sunday Times</b>         | "Santander makes a move"   |
| <b>IAWS</b>            | <b>Sunday Times</b>         | "Bakery giant keeps on rising "                                  |
| <b>ISTC</b>            | <b>Sunday Business Post</b> | "ISTC investors hurting from credit crunch "                     |
| <b>Ryanair</b>         | <b>Sunday Business Post</b> | "Big profits for Ryanair in face of ongoing oil price turmoil "" |
| <b>One51</b>           | <b>Sunday Independent</b>   | "One51 price heads south"  |
| <b>Ryanair</b>         | <b>Sunday Independent</b>   | "Share down turn clips wings at Ryanair"                         |
| <b>BHP Billiton</b>    | <b>Sunday Tribune</b>       | "BHP must raise cash bid"  |

### Recent Corporate Visits

| Company    | Change on year | Meeting date | Relevant news   |
|------------|----------------|--------------|---|
| IAWS       | -16.2%         | 28/09/07     | CEO Owen Cillian said that the company will be force to put through food price increases                                  |
| Irish Life | -31.7%         | 11/09/07     | Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins                    |
| FBD        | -41.9%         | 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         | 7174  | -3.9%      | -23.8%     | 2.6%      | 10.7 |
| FTSE         | 6339  | -1.9%      | 1.9%       | 3.7%      | 13.0 |
| DAX          | 7786  | -0.3%      | 18.1%      | 2.5%      | 13.8 |
| DOW JONES    | 13043 | -4.1%      | 4.7%       | 2.3%      | 16.2 |
| S&P 500      | 1454  | -3.7%      | 2.5%       | 1.9%      | 17.7 |
| NASDAQ       | 2628  | -6.5%      | 8.8%       | 0.7%      | 40.7 |
| EUROSTOXX 50 | 3666  | -2.6%      | -0.8%      | 3.6%      | 12.8 |
| NIKKEI 225   | 15197 | -6.6%      | -11.8%     | 1.2%      | 31.7 |

## Sector

|                     | Weekly move% | YTD move % |
|---------------------|--------------|------------|
| Mining              | +2.9         | 51.1       |
| Chemicals           | -0.8         | 26.9       |
| Tobacco             | -3.0         | 19.6       |
| Beverages           | -3.2         | 18.7       |
| Telecoms            | -3.5         | 12.7       |
| Technology          | -7.1         | 10.4       |
| Oil & Gas           | +0.4         | 10.4       |
| Personal Goods      | -3.5         | 9.5        |
| Autos               | -11.7        | 7.1        |
| Utilities           | -1.4         | 5.5        |
| Construction        | -2.1         | 2.9        |
| Leisure goods       | +0.2         | 1.6        |
| Food Producers      | -8.9         | 0.0        |
| Media               | -5.9         | -2.3       |
| General Industrials | -4.3         | -3.6       |
| Insurance           | -2.0         | -10.1      |
| Pharmaceuticals     | -3.7         | -10.3      |
| Software            | -4.7         | -14.6      |
| General Retailers   | -6.3         | -16.4      |
| Banks               | -7.8         | -22.0      |

## Commodities

|           | Current | Change YTD |
|-----------|---------|------------|
| Crude Oil | \$95.3  | +42.7%     |
| Gold spot | \$816.2 | +28.3%     |

## Exchange Rates

|         | Current | YTD Change | Year End (est) |
|---------|---------|------------|----------------|
| EUR-USD | 1.461   | +9.6%      | 1.42           |
| EUR-GBP | 0.703   | +4.1%      | 0.705          |
| EUR-JPY | 161.5   | +2.66%     | 165.0          |

## 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 | 3 month | Year End (est) |
|-----------|---------|---------|----------------|
| Euro Zone | 4.00%   | 4.59%   | 4.00%          |
| UK        | 5.75%   | 6.28%   | 5.75%          |
| US        | 4.50%   | 4.88%   | 4.50%          |

## Credit Market Summary

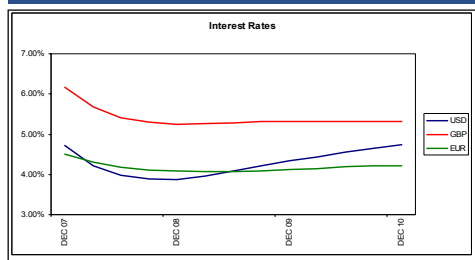
High yield spreads had a volatile week, fluctuating between widening and tightening daily, very much led by equity markets and concentrating on ongoing weakness in financial names, US housing markets and oil price concerns. The value of asset backed securities continues to fall off a cliff, causing the valuation of portfolios to plummet and sparking fears of a fire sale of these assets. Near term credit investors are likely to see 400bps in the high yield index, not a big stretch from the 366bps level today, as investors continue with a 'wait and see' policy

## Credit Sector Movements

**Automotive:** Wider in the sector – German automakers all widened significantly this week led by disappointing results from BMW (+9bps, 34%) who reported €765m earnings, versus €890m expected, citing weaker USD and higher raw materials as a drag on earnings. French automakers also saw risk increase, Renault +10bps (26%) and Peugeot +10bps (24%). In the US the fortunes of GM and Ford diverged, GM is now trading at a higher risk premium than Ford, reversing a long term trend, where GM had been seen to be further down to restructuring line compared to Ford. This week however GM reported to second largest quarterly loss in US history, while Ford reported a substantial improvement in earnings – GM spreads are trading at 638bps (+18%); Ford at 563bps (-15%).

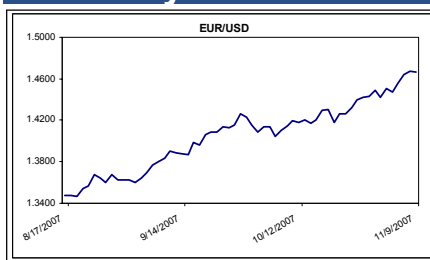
**Building materials:** Wider in the sector – Saint Gobain and LaFarge were both active after reports in Le Figaro that La Farge had rejected a merger proposition from Saint Gobain's new CEO. LaFarge spreads widened 6bps (11%); SGO 10bps (+23%). CRH (America) debt widened 2bps (3%) this week to 67bps while Heidelberg tightened 7bps (7.5%) on very strong 3Q results.

## Interest Rate Outlook

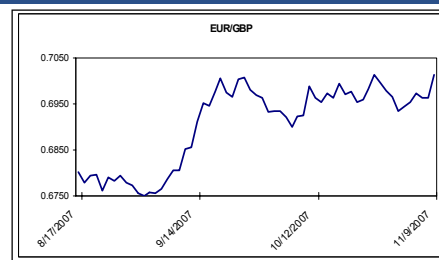


Safe haven purchases continued last week as the yield on the US 10-year treasury declined by retreated by a further 10 basis points to 4.21% its lowest level in two years. Investors continue to increase their holdings in government bonds following the ongoing fall out from the US sub-prime crisis.

## Currency Comment



The US dollar continued its decline against the euro last week falling 1.2% to \$1.468, after hitting a new all time low on Friday at \$1.475. The decline followed comments from Fed Chief Bernanke that he expects the US economy to cool 'noticeably' in Q4. All focus will be on the US this week with housing, retail sales and inflation data due and any weakness in the numbers could see the dollar fall closer to the \$1.50 mark.



The euro added 1% against sterling last week to finish above the £0.70 level. The key event next week will be on Wednesday when the Bank of England is due to release its quarterly inflation report. Any hawkish comments with regards to upward risks to inflation due to rising energy prices could see sterling regain ground



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## DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.  
45 South Mall, Cork, Ireland  
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300  
Tel : +353 21 422 2122  
Tel : +353 61 436 500

E-mail: [info@dsl.ie](mailto:info@dsl.ie)  
E-mail: [cork@dsl.ie](mailto:cork@dsl.ie)  
E-mail: [Limerick@dsl.ie](mailto:Limerick@dsl.ie)