



January 13, 2006

Contact Details:

Email : [research@dsl.ie](mailto:research@dsl.ie)  
[info@dsl.ie](mailto:info@dsl.ie)

Tel : +353 1 633 3800  
Fax : +353 1 677 4708

EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7522 ↑	28	0.37%	11.0	2.15%
FTSE 100	5735 ↑	4	0.06%	13.5	2.07%
DAX 30	5542 ↑	9	0.17%	15.0	2.48%
DOW	10962 ↓	-81	-0.73%	19.5	1.66%
NASDAQ	2317 ↓	-15	-0.63%	15.6	5.05%
S&P	1286 ↓	-8	-0.63%	21.0	3.30%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2066	0.6829	138.1800
Dollar	1.2066	1.0000	1.7668	114.5200
Sterling	0.6829	1.7668	1.0000	202.3400
Yen	138.1800	114.5200	202.3400	1.0000
Oil (Nymex)	63.9400			

## This Week's Research

Aviva Vodafone  
Fyffes  
Tullow Oil

## Today's Research

GSK

## Breaking News

### Grafton trading statement in line with expectations

In a trading update released today Grafton said turnover for 2005 exceeded €2.6bn and group earnings are expected to be in line with market expectations of EPS of around 66 cents. The group said it benefited from a favourable operating environment in Ireland offsetting weaker trading conditions in the UK during the second half of the year. It also said Heitons performed ahead of group expectations and contributed significantly to profitability. The group said it expects difficult conditions to continue in UK during the first half of 2006 but following a recent marked improvement in UK macro economic indicators the group said prospects for the second half are more favourable. In Ireland, the group expects to benefit from a continuation of buoyant trading conditions and good like for like merchandising sales growth throughout 2006. Grafton said further organic growth is planned for 2006 with the development of additional greenfield locations, the completion of the 9th dry mortar plant in the UK and further DIY store openings in Ireland. The group said it also expects to benefit from its healthy pipeline of potential acquisitions.

### ECB holds rates steady

The European Central Bank left open the possibility it could raise interest rates again in March if economic indicators continue to show an upturn. At its meeting yesterday, the bank left interest rates at 2.25% after raising it in December for the first time in five years. ECB President Jean-Claude Trichet said that recent eurozone data had confirmed the forecasts made by the ECB and national central banks, implying that a case for gradually tightening monetary policy remains. Some economists are expecting a further quarter-point hike in rates in March.

## GSK (1,450p)

## Supply fears overdone

Owen Turner

- GlaxoSmithKline on Wednesday said it is experiencing a shortage of its Coreg, Avandamet and Paxil CR drugs in the United States, due to processing difficulties at a plant in Puerto Rico. The difficulties occurred because of new documentation procedures at the plant, which is creating a bottleneck in getting the drugs out the door. This disruption in supply is unlikely to materially impact the group's earnings, given that the disruption is a temporary issue and the drugs represent a very small portion revenues (5%).
- Pharma pick: GlaxoSmithKline is our top pick within in the pharmaceutical sector for 2006 because of the company's low-risk growth profile, the strength of its product portfolio and the company's extensive pipeline.
- R&D pipeline: The next 12 months will see a host of key updates hitting the market, including at least six new Phase III compounds, seven regulatory filings and nine important product launches. At its Oncology seminar in November GSK said it expected to have four cancer drugs in late-stage clinical trials next year. These updates will keep sales forecasts ticking upwards over 2006.
- Growth strategy: 2006 should see the company continue its policy of strategic acquisitions, particularly in potentially high-growth areas. External alliances will be a priority under a long-term plan by the company to spend more money on drug research. This strategy enables its powerful drug development set-up to get the most from many more experimental compounds acquired from biotech firms. GSK currently spends around £2.8bn a year on research and development, equivalent to some 16 percent of its prescription drug sales, which is broadly in line with its competitors. Management intends to increase this to nearer 25 percent.
- Limited risk : Only 12% of group forecast 2005 sales are exposed to patent expiration between 2005 and 2008. While, over the next 4-5 years, c.83% of the company's pharmaceutical revenues are likely to remain immune from competitive threat.
- Share buyback : In October 2002, GSK commenced a £4bn new share repurchase programme. By end-September 2005, shares with a value of £2.8bn have been repurchased under this programme, including £48m over the first nine months of 2005. This process will offer support to GSK's share price as the company continues to buyback shares in 2006 and 2007.
- Attractive upside: At 1,450p GSK currently trades at 17.7x 05 consensus EPS of 82p, a slight discount to the European sector average of 19x. We would expect this discount narrow over the coming months as the market receives further evidence of GSK's positive earnings momentum and pipeline progression. Our target price of 1,630p is based on 18.1x 06 EPS of 90p.

## Business Press

- Value of Independent JPPL stake to double (IT)
- Turnover at ISEQ rises 50% to €108bn (IT)
- Kingspan workers set for ballot over staff row (II)
- Scottish Power names new chief (FT)

## Investment Press— Lex

- J Sainsbury: On Thursday Justin King had just cause for satisfaction. The news that like-for-like sales rose nearly 5 per cent in the last quarter of 2005 came a day after independent data showed that, over Christmas, the UK food retailer enjoyed its highest market share for nearly two years



Disclaimer: The information in this document has been obtained from sources, which we believe to be reliable. We cannot guarantee its accuracy or completeness. It does not constitute a solicitation for the purchase or sale of any investment. Any person acting on the information contained in this document does so at their own risk. Recommendations in this document may not be suitable for all investors. Individual circumstances should be considered before a decision to invest is taken. Investors should note the following: Past experience is not necessarily a guide to future performance. The value of investments may fall or rise against investors' interests. Income levels from investments may fluctuate. Changes in exchange rates may have an adverse effect on the value of, or income from, investments denominated in foreign currencies. Dolmen Securities is a Member Firm of the London Stock Exchange, and is authorised by the Financial Regulator under the Investment Intermediaries Act 1995. Dolmen Stockbrokers is a Member Firm of The Irish Stock Exchange, The London Stock Exchange, and is authorised by the Financial Regulator under the Stock Exchange Act 1995. Dolmen Stockbrokers is regulated by the Financial Regulator as a Mortgage Intermediary.