

# Traders Update

MONDAY 13TH AUGUST 2007

## Brief Market Comment

Over the last ten days, equity markets have changed direction five times in a big way and during the last week they changed direction three times. In this extremely uncertain environment this clearly demonstrates that market participants are having difficulties assessing the position they should adopt. When one considers events of the last week this is easy to understand. Further negative news flow from the sub-prime sector as well as what BNP Paribas CEO described as a 'complete evaporation of liquidity' in the credit markets placed further selling pressure on already nervous markets. The injection of liquidity by the Fed, ECB and other central banks to ease this liquidity issue was helpful but left some investors wondering did the central banks know something the market didn't. The crux of the current market volatility is that because of the complex structure of the credit derivative market, no one can accurately calculate the overall exposure for financial institutions. So long as this remains the case or at least until the markets get the interest rate cut it is now pricing in, further market volatility can be expected. In this environment investors should trade within defined ranges with a reduced leverage exposure.

## Trading Ideas

### Anglo Irish

Current: €13.40  
Target €18.00  
P/E 07 10.83  
Div Yield 07 1.48%  
Next event 5/9/07

### BUY

**Anglo Irish Bank** senior management last week visited Dolmen to update us on the extent of the current slowdown in Irish commercial property lending and to confirm that its credit quality remains as robust as that reported recently by AIB. CEO, David Drumm confirmed that both the Irish office and retail markets **continue to perform very well**, led by rising rents and low vacancy levels. In the UK, while the bank is aware of some second tier regional locations where retail rental growth is sluggish currently, prime retail locations and the UK office market in general both continue to show strong growth. He was adamant that there is no evidence whatsoever of any deterioration in any of the bank's credit quality measures, and that it has no direct or ABS sub-prime exposure. Its only potential exposure is through €300m of AAA/AA rated CDO's in its bond portfolio, which continue to perform perfectly currently. The current sub-prime panic would appear to be generating a particularly attractive competitive environment for Anglo in the US, with several of its international competitors having limited capacity to achieve further loan growth currently. Strong US and UK loan growth should continue to more than offset any slight slowdown in the rate of Irish loan growth in H2 2007. Anglo will release a trading statement for the year ending 30/09/07 on Wednesday 3 weeks, **5th September**.

### CRH

Current: €31.55  
Target €40.00  
P/E 07 12.48  
Div Yield 07 1.96%  
Next event 28/08/07

### BUY

European peers of **CRH**, HeidelbergCement (HC) and Dycherhoff, last week both announced strong H1 2007 results. Dycherhoff reported 51% growth in H1 operating profit, driven by 65% growth in its Western European operations and 75% growth in its Eastern European operations. HC reported 28.5% growth in H1 operating profit on a like for like basis, helped by 13% life for like growth in its Europe-Central Asia business. The results were further evidence of the current strength of aggregates markets in both the developed markets of Western Europe and in the emerging markets of Eastern Europe. The other sector dynamic which has held constant in recent months is M&A, with the latest major deal being the sale by HC of its dry mortar business, Maxit, to Saint Gobain for €2.125 bn, representing an EV/EBITDA multiple of 10.5x. This multiple is in line with the 10x to 12x EV/EBITDA range at which peer deals within the heavy building materials sector have taken place this year, and exposes the current under valuation of CRH, currently trading at an EV/EBITDA multiple of 7.9x 2007 EBITDA of €2,782m, and at **11.3x** consensus 2008 eps of €2.78. CRH's results for the 6 months ended 30/06/07 will be announced on **28th August**, and should result in a significant upgrade to the current consensus 2007 eps of €2.53, which already represents year on year growth of 13%.

### British Land

Current: £11.72  
Target £17.50  
NAV 07 £16.82  
Div Yield 07 2.98%  
Next event 16/08/07

### BUY

This Thursday, **16th August**, **British Land** (BL) will announce its results for the 3 months ended 30/06/07. We are expecting net asset value (NAV) per share of £17.16 as at 30/06/07 to be announced, representing 2% growth on the £16.82 per share reported as at 31/03/07. This would keep the group on target to achieve full year NAV per share growth of 9% to £18.33 as at 31/03/08, and would imply that the current share price represents a **32%** discount to NAV. This would appear an excessive discount, given that the historical UK property sector average over the past 25 years has been 10% to account for CGT, and given that a lower NAV discount is now justified as a result of the elimination of this tax through REIT conversion. Following the Q1 results' announcement, BL will be able to resume its share buyback programme, with a further c.£200m worth of its shares currently expected to be bought back over the next 12 months. The £1 bn of asset sales completed over the 3 months ended 30/06/07 create the potential for an increase in this buyback programme should the group's share price remain at its current excessive discount to NAV.

### GSK

Current: £12.76  
Target £14.50  
P/E 07 12.89  
Div Yield 07 3.97%  
Next event 24/10/07

### BUY

Following the £7.7 bn increase in the share buyback programme of **GlaxoSmithKline** (GSK) announced last month, the company was in the market last week taking advantage of its current low share price. Some of the recent weakness followed the FDA's decision to issue a not approvable letter for a new stronger (500/50) version of its Advair drug. Even though Advair is an important drug for GSK, generating c.18% of 2007 group sales, it is still expected that the drug's current consensus sales growth forecasts for future years will be achieved even without the new version of the drug being available. There is also the potential for **improved pipeline news flow next month**, with the EMEA expected to approve the group's important cancer drugs, Cervarix and Tykerb, and the FDA expected to approve its epilepsy drug, Lamictal XR. If equity markets remain weak during the remainder of Q3 2007, GSK's defensive growth characteristics should help its share price to outperform from current levels, with the shares currently trading at **12.9x** consensus 2007 eps of 98.9p, and paying a current year dividend yield of c.4%.

### BP

Current: £5.31  
Target £6.50  
P/E 07 10.44  
Div Yield 07 3.87%  
Next event 23.10/07

### BUY

We also expect improved news flow from **BP** during H2 2007, with new start-ups at the Rosa and Plutnio fields in Angola expected to be the main drivers of an increase in group production of c.400,000 barrels per day by year end. The groups' Texas City refinery is also slowly moving back to full capacity, and its Whiting refinery is expected to be operational again in Q4 2007. Disruptions at BP's US refineries resulted in its crude processing business operating at only 83% capacity during Q2 2007. These disruptions, caused by a program of maintenance to increase safety, should also help increase the group's US refining margins. Following the 13% fall in the BP share price over the past month, the shares are now trading at **10.3x** consensus 2007 eps of 51.5p and paying a dividend yield of c.4%. Similar to GSK, if equity markets remain weak during the remainder of Q3 2007, BP's defensive growth characteristics should help its share price to outperform from current levels.

## This Week's Calendar Events

**EARNINGS:** TUES (Intercontinental Hotels, H1) WED (Smurfit Kappa, Q2), (Barclays, Ex div), (Aviva, Ex div) THUR (British Energy, Q1), (British Land, Q1)

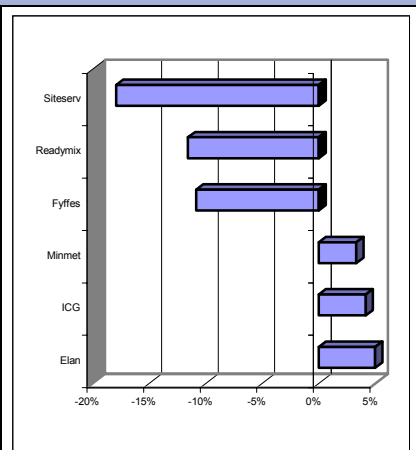
**ECONOMIC DATA:** MON (US, Advance retail sales) TUES (UK, CPI), (US, trade balance), (US, PPI) WED (BoE minutes), (US, CPI), THUR (UK, Retail sales), (Eurozone, CPI), (US, Housing Starts) FRI (US, U. of Michigan confidence)

# DOLMEN STOCKBROKERS Traders Update

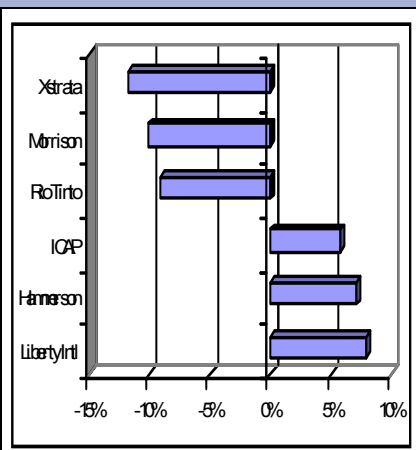
## Last Weeks Best/ Worst Performers

03/08/07-10/08/07

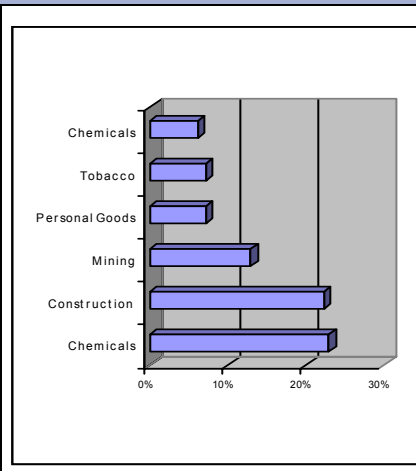
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen

### WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	18.40	-6.12%	-16.10%	Recently reported 1H pre-tax profit that rose by 9% to €1.3bn and raised full year guidance
Aviva	6.84	2.40%	-14.05%	The group's said its initial UK flood cost estimate of £175m remains unchanged
BP	5.31	-1.82%	-1.46%	Press reports suggest BP has hired Bain Capital to assist in simplifying its organisational structure
B. Land	11.72	-3.22%	-29.83%	Ahead of the group's first quarter results due on August 16th
C&C	6.15	-6.25%	-36.48%	Issued a second profit warning in three weeks due to continued bad weather and increased competition
CRH	31.55	-1.38%	2.58%	The group may be interested in Anglo American's Tarmac division, according to press reports
GNC	4.75	-5.19%	5.00%	Origin bought Greencore's 50% stake in Odlum for €35m
GSK	12.76	-0.23%	-0.89%	FDA voted to keep the company's diabetes drug Avandia on the market
LAD	3.90	-1.27%	-3.07%	Reported that H1 operating profit increased 28.9% to £195m
RBS	5.62	-3.10%	-11.56%	Reported 1H net income that rose by 19% to £3.56bn and ahead of expectations
Ryanair	5.33	-2.38%	0.09%	The airline raised its full year net income growth forecast to 10% from 5%
Vodafone	1.52	-1.94%	11.92%	Citigroup upgraded its rating on the stock to buy from hold

DD Unrealised gain YTD	-8.03%	ISEQ YTD	-11.23%
DD Realised gain YTD	2.71%	FTSE YTD	-1.83%
DD Total YTD	-5.32%	Average performance	-6.53%
Relative performance YTD	1.21%		

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

### What it says in the 'Sundays'

- "CFD holders buying power is slashed by market turmoil" - **Sunday Business Post**
- "Private Equity problems create opportunities for CRH" **CRH - Sunday Business Post**
- "Rescue plans to stem crisis" - **Sunday Times**
- "Shannon deal rebuff" **Aer Lingus- Sunday Times**
- "Fresh doubts on RBS bid" **RBS - Sunday Times**
- "Irish banks avoid sub-prime debacle" **Irish Banks - Sunday Independent**
- "One/51 hint at ICG move North" **ICG - Sunday Tribune**

### Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Anglo Irish	-14.70%	09/08/07	David Drumm stated the current sub-prime panic would appear to be generating an attractive competitive environment for Anglo in the US.
Metro Baltic	-11.06%	13/07/2007	James Kenny re-iterated that the company has now has fully invested 95% of the funds raised. He also stated that going forward the company will concentrate on St. Petersburg.
Bank of Ireland	-23.77%	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

# Last Weeks Moves

## Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	8347	-2.89%	-11.28%	2.20%	13.30
FTSE 100	6038	-2.99%	-2.93%	3.96%	12.18
DAX	7343	-1.24%	11.31%	2.66%	12.65
DJ INDUS. AVG	13210	0.26%	6.04%	2.18%	17.38
S&P 500	1450	1.24%	2.29%	1.89%	16.76
NASDAQ	2543	1.36%	5.38%	0.73%	35.51
DJ STOXX 50	3630	-2.37%	-1.82%	3.75%	12.01
NIKKEI 225	16764	-1.27%	-2.68%	1.15%	35.28

## Sector

	WEEKLY MOVE %	YTD MOVE %
Chemicals	0.64	22.94
Construction & Materials	-2.65	22.28
Mining	-8.52	12.91
Personal Goods	2.43	7.17
Tobacco	-1.37	7.16
Technology Hardware & Equipment	-2.82	6.16
Automobiles & Parts	-8.07	4.54
Media	-1.79	3.96
Beverages	-1.27	2.16
Oil & Gas Producers	-2.36	0.15
Telecommunications	-1.85	-1.37
General Industrials	0.49	-2.09
Leisure Goods	-3.78	-2.80
Food Producers	-3.10	-3.92
Pharmaceuticals & Biotechnology	-2.97	-5.80
Gas, Water & Multiutilities	-1.97	-7.06
Software & Computer Services	1.80	-7.42
Insurance	0.34	-8.06
Banks	-2.66	-8.31
General Retailers	-1.96	-9.81

## Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$70.97	7.73%
Gold Spot	\$673.20	5.71%

## Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.37	3.57%	1.35
EUR-GBP	0.676	0.40%	0.665
EUR-JPY	162.06	3.04%	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%	4.00%
UK	5.75%	6.00%
US	5.25%	5.25%

## Credit Market Summary

A volatile credit market this week however credit spread movements were more subdued than equity, surprising given the numerous rumours and negative headlines. One theory is that credit spreads have priced in more negative news than equity markets – however we do not expect spreads to remain subdued, given the liquidity injections this week we expect more bad news will be disclosed by banks in the near term thereby keeping spread volatility high. High yield index ended the week at 350bps (385bps last week) while the investment grade index closed at 48bps (51bps last week)

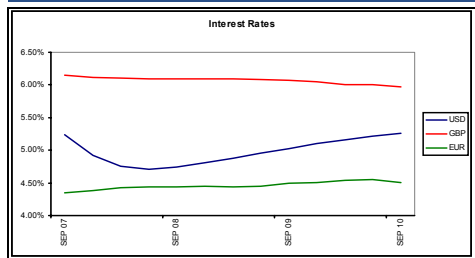
## Credit Sector Movements for week ended 10/08/07

**Building materials:** Mixed in the sector – La Farge widened 3bps due to its large US exposure, which accounts for 30% of sales. Saint Gobain also widened this week despite S & P affirming its long term credit rating post the acquisition of Maxit. Heidelberg say spreads tighten 3bps after they secured European antitrust approval to buy Hanson. CRH was unchanged (illiquid).

**Airlines:** Mixed in the sector – British Airways was 2bps wider over the week, spreads tightened early in the week only to spike wider on Thursday as fears of economic weakness spreads through the markets – the airline sector is particularly sensitive to economic growth outlooks. Lufthansa also spiked late in the week to end 1bps wider, while Rolls Royce and BAE Systems widened 1bps and 2bps respectively.

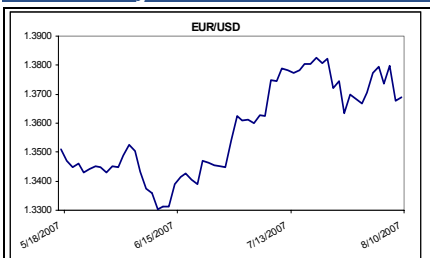
**Telecoms:** Tighter for the most part – both BT and Vodafone tightened 1bps this week, having tightened significantly earlier in the week only to widen Friday. Fitch affirmed BT long term rating this week at BBB+, reflecting stable cash flows, good liquidity and reasonable net leverage. Vodafone announced this week they are not going to exercise an option to sell its stake in Verizon.

## Interest Rate Outlook

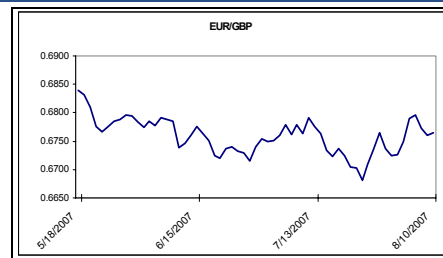


European bonds increase on the week as the flight to quality surrounding the volatility in the Equity and Credit markets continued. With most major central banks having to introduce overnight liquidity last Thursday and Friday traders will be monitoring the money markets very closely this week to assesses if further liquidity issues remain

## Currency Comment



The \$ strengthened last week as the flight to quality resulting from the volatility in the Equities and Credit markets continued. This despite the Fed suggesting that inflation remained their predominate concern. This week markets will be focused on the volatility in the equity and credit markets and economic data including US retail sales and CPI



The € strengthened against £ last week on the back of worries that the UK economy was facing a number of head winds including the July floods, foot and mouth and sub prime exposure. The UK inflation report suggested that one more rate increase was likely. We look for £ to remain weak as traders reassess the interest rate outlook for the UK economy.



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