



March 15, 2007

Contact Details:

Email : research@dsl.ie

Tel : +353 1 633 3800
info@dsl.ie Fax : +353 1 677 4708

EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9061	↓ -381	-4.04%	11.0	-3.69%
FTSE 100	6001	↓ -161	-2.61%	12.4	-3.54%
DAX 30	6448	↓ -176	-2.66%	15.0	-2.26%
DOW	12133	↑ 57	0.48%	19.5	-2.65%
NASDAQ	2372	↑ 21	0.90%	15.6	-1.80%
S&P	1387	↑ 9	0.67%	21.0	-2.19%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3213	0.6835	154.9900
Dollar	1.3213	1.0000	1.9326	117.2900
Sterling	0.6835	1.9326	1.0000	226.6800
Interest Rates (%)	3.5000	5.2500	5.2500	0.4800
Oil (Nymex)	58.1600			

This Week's Research
IAWS
Aer Lingus
Bank of Ireland

Today's Research
Smurfit Kappa

Today's Recommendation

Breaking News

Morrison unveils a six-fold rise in profit

Morrison unveiled a six-fold rise in profit and a £450m makeover today as it looks to extend its recovery from a tough two years following its purchase of Safeway. The firm said it was in talks to create a property partnership for around 25 of its stores and that this could be the first step to extracting more value from its properties. Morrison said it made a profit before tax and property gains of £331m in the year to February 4, up from £54m the year before. However, it said its new financial year had started slowly, with like-for-like sales excluding fuel up 3.4%, compared with a 5.2% rise in the year to February 4.

Prudential's operating profit is up 15%

Prudential announced today that FY operating profit rose 15% and that new business profit had exceeded £1bn for the first time. The company also said it had entered an agreement for the transfer of £1.8bn of with-profits annuity policies from Equitable Life Assurance Society. Operating profit rose to £1.97bn, up from £1.7bn in 2005. The group delivered record annual premium equivalent sales of £2.47bn, up from £2.1bn the previous year. Prudential's UK business is struggling outside the annuities area. Some analysts have said that the company has failed to cope with the twin demise of direct sales-force distribution and with-profits products and that its non-annuity business is unprofitable and lacks scale.

Horizon reports a 9% rise in pre tax profits to €6.05m

Horizon Technology unveiled a 20.7% rise in its full-year EBITDA to €10.02m and said that it is 'well-placed' to deliver continued growth going forward. The company reported a pretax profit for the year-to-December of €6.05m, up from €5.51m last year. Its revenues rose 46.9% to €257.90m on a mix of strong organic growth in UK and growth from bolt-on acquisitions. The company said more than 75% of its revenue now came from the UK and this was likely to increase. It also added would be looking at the IT markets in Ireland and the UK for bolt-on acquisitions and that it expects the business IT infrastructure market would continue to grow by single-digit percentages.

Business Press

- ISEQ drops 4% as fears on US grow (II)
- It is a racing certainty the bookies are on a winner (II)
- US debt wipes €4.8bn off ISEQ (IE)
- US lawmaker gives online gaming hope of repealing ban (FT)

Smurfit Kappa (€16.50) Debt & new capacity risks Stuart Draper

- IPO priced : Smurfit Kappa this week priced its IPO at €16.50 per share, raising €1.3 bn from the issue of 78.9m new shares. This level is slightly above the midpoint of the previously indicated price range of €14 to €18. Once the group's pension deficit is included, this values the shares at a 2007 EV/EBITDA multiple of 7x, which is line with the group's European peers, such as SCA of Sweden (currently trading at 6.9x), with the current median multiple for the European paper and packaging sector being 6.6x.
- IPO background : Smurfit Kappa was formed in 2005 through the merger of Jefferson Smurfit and Kappa Packaging. Jefferson Smurfit was originally taken private in September 2002 by Madison Dearborn Partners (MDP). It is currently owned by MDP, Cinven, CVC and management. The group is a leader in paper-based packaging, with packaging accounting for c.86% of 2006 group revenues.
- Massive debt : At a share price of €16.50, the group has a market cap of €3.4 bn. However, even after taking account of the IPO proceeds of €1.3 bn, Smurfit still has net debt of c.€3.7 bn. Also, with the existing Smurfit shareholders subject to a 180 day lock-up, there is the risk that this lock-up could act as a medium term overhang for the share price.
- New capacity : Another threat is that two large paper mills are set to commission in Europe in 2009, and in past cycles, pricing has tended to weaken in anticipation of this new capacity. The initial ISEQ weighting of 3% will also be reduced slightly in line with the ISEQ re-weighting of 18th June. Historically, the paper and packaging sector has tended to deliver very poor returns on capital for investors. Admission and unconditional dealings in the shares are expected to commence on 20th March.
- Fairly valued : Given the group's massive net debt, it is difficult to justify any premium to the sector average, and given the new capacity set to commission over the next two years, it is difficult to justify any further significant upside for sector average multiples. As a result, with the shares currently rated at a 2007 EV/EBITDA multiple of 7x, our view is that the shares are quite fairly valued at current levels, and following the sell off of recent weeks, we would see greater upside potential elsewhere for similar risk : **NEUTRAL**.

Investment Press

- Subprime contagion: The market is in the grip of an attack of nerves over the meltdown in US subprime mortgages. The fear is the knock-on effect into other areas of the economy and capital markets.



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.

DOLMEN SECURITIES → Website : www.dolmenstockbrokers.ie
75 St. Stephen's Green, Dublin 2, Ireland.
45 South Mall, Cork, Ireland.

• Tel : +353 1 633 3800
• Tel : +353 21 422 2122

• Fax : +353 1 677 7044
• Fax : +353 21 422 2123

• Email : info@dsl.ie
• Email : cork@dsl.ie

Disclosures

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes only to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor.

Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgement as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuers(s) in advance of publication.

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. Investors may not necessarily recoup the full value of their original investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

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.

Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments/ derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in issuers they publish research, views and recommendations on and accordingly analysts involved in the production of this report may own stocks in a company covered in it. Any own account staff trading is undertaken in strict compliance with Dolmen's own account internal rules and therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. Stuart Draper and Owen Turner are responsible for the production of this report. Stuart Draper is Head of Research and Owen Turner is an equity analyst.

For US Persons Only

This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.