



October 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	8021 ↓	-162	-1.98%	14.1	-14.75%
FTSE 100	6731 ↑	6	0.09%	13.2	8.20%
DAX 30	8041 ↑	8	0.09%	14.2	21.89%
DOW	14093 ↑	78	0.56%	15.2	13.08%
NASDAQ	2806 ↑	33	1.21%	26.1	16.16%
S&P	1562 ↑	7	0.48%	15.9	10.12%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.4172	0.6964	166.6600
Dollar	1.4172	1.0000	2.0341	117.5900
Sterling	0.6964	2.0341	1.0000	239.1500
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	83.6900			

This Week's Research

Today's Research Rolls-Royce

Today's Recommendation

Rolls-Royce (£5.60) Initiating coverage Carl Bourke

- Company overview : Rolls-Royce is a leading provider of power systems and services for use on land, sea and in the air. It has four divisions - civil aerospace, defence aerospace, marine and energy. These divisions currently account for approximately 54%, 21%, 18% and 7% of revenues respectively. At its interim results announced on 26th July, the company announced a record order book of £35.1bn. This was an increase of 34% over the 2006-year end figure of £26.1bn. Services revenues accounted for £2bn, or 53% of total group sales, which, at £3.6bn, rose by 10% year on year.
- Company outlook : Rolls-Royce remains a cyclical company with the civil aircraft cycle been the biggest driver. This bodes well for profits for the next 2-3 years as the industry is still in an up cycle. However, Rolls-Royce is becoming less cyclical as now c.50% of revenues come from after market sales (services and repairs). It is also upping its share of the civil aerospace market for new widebody aircraft. It currently has c.30% of the current order book market but it has c.50% of the next generation of widebody aircraft (Boeing 747 & 787 and the Airbus A350 & A380). It also recently secured the engine orders from British Airways that may be worth up to £5bn. The order included 12 firm and 7 options for the Airbus A380 and 24 firm and 18 options for the Boeing 787 Dreamliner.
- Future earnings : Rolls-Royce has grown its aftermarket and services revenues by 10% per annum for the last 10 years, with it now accounting for over 50% of group sales. With the company's strong installed base we expect this growth to be continued for the foreseeable future. The one note of caution is its exposure to the US dollar with c.35% of turnover coming from America. It is estimated that 1c deterioration has a £10m negative impact on group EBIT. The company is trying to offset this by increased dollar based sourcing and increased hedging.
- Major upside : With its strong order book and good visibility on earning over the next number of years we feel that Rolls-Royce deserves to trade at least in line with peer valuations at 17x 2008 earnings. Therefore we are initiating coverage of Rolls-Royce with a 12 month price target of £6.20 (c.13% further upside) which is based on 17x 2008 earnings per share of 36.5p. The company also has strong balance sheet with the potential to return between £1bn to £1.5bn to shareholders next year: **BUY**.

Breaking News

Northern Rock in discussions with several suitors

Northern Rock announced today that it is in discussions with several suitors over a potential takeover. Northern Rock said the talks were only "preliminary in nature" and didn't name the bidders. The bank has been looking for a buyer since news last month that it had asked the Bank of England for an emergency loan and issued a profit warning. On Friday, a consortium led by Virgin Money, a unit of Sir Richard Branson's Virgin Group Ltd., confirmed it had made a bid for Northern Rock. In a statement, Virgin said the consortium has submitted a proposal to the Northern Rock board under which it would inject 'substantial' new equity into the bank. Under the deal, Northern Rock would be combined with Virgin's financial services unit, Virgin Money. The consortium comprises US insurer AIG, US private equity firm WL Ross, UK hedge fund manager Toscafund, and Hong Kong-based investment house First Eastern Investment Group.

Travis Perkins announce trading statement

Travis Perkins today said its merchanting and retailing businesses were performing well, despite "early signs of the expected reduction in market growth." In a trading statement the company said it was seeing further gains in market share, an acceleration of network expansion and improved profitability and returns. Group revenue for the nine months to the end of September rose 11.3%. Revenue in general merchanting was up 11.7% while specialist merchanting revenue rose 14.1%, reflecting increased market share.

FDA extend it review of Elans Tysabri

Elan announced that the U.S. Food and Drug Administration (FDA) informed them that the Agency will extend its regulatory review of Tysabri as a treatment for Crohn's disease by up to 3 months. The agency requires additional time to review information regarding the proposed Tysabri risk management plan for Crohn's disease. Under this revised timeline, the companies anticipate action from FDA on or before January 13, 2008. In related news Elan said it has several options for its share in the drug Tysabri if partner Biogen Idec Inc. is bought. On Friday, Biogen said it was exploring a possible sale of the company and already has interest from billionaire investor Carl Icahn, who has recently bought up shares.

Business Press

- Airline carbon tax 'unfair' (IT)
- C&C ripe for takeover after price drop (II)
- Bol officials face US probe over donations (II)
- BAE rejects \$6.7bn takeover attempt (IE)

Investment Press

- Ericsson's cash flow: Many investors talk a good game on cash flow but have little enthusiasm for examining it closely. But once a company gets a reputation for failing to convert accounting profits into money, it can be hard to lose it.

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 performance 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 SECURITIES → Website : www.dolmenstockbrokers.ie

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

• Tel : +353 1 633 3800
• Tel : +353 21 422 2122
• Tel : +353 61 436 500

• Fax : +353 1 677 7044
• Fax : +353 21 422 2123
• Fax : +353 61 436 599

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

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, Carl Bourke and Stephen Taylor are responsible for the production of this report. Stuart Draper is Head of Research and Carl Bourke & Stephen Taylor are equity analysts.

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.