

# Traders Update

MONDAY 15TH OCTOBER 2007

## Brief Market Comment

Equity markets were stronger last week as the third quarter earnings season kicked off in the US. Dow components Alcoa and General Electric were the first to report posting results that were broadly in line with expectations in what will be a hugely significant quarter for corporate results given that it encompassed the most severe part of the 'credit crunch'. US retailers were also in focus last week after discount store Wal-Mart raised its third quarter earnings guidance. UK stocks had a good week with Northern Rock the standout performer after a group led by Richard Branson's Virgin Group pledged to inject new equity into the company. Mining stocks BHP Billiton and Rio Tinto continued to soar on rising commodity prices, while shares in BP are coming back in to favour after the group announced it is to eliminate several layers of management to help streamline decision making. The ISEQ had a disappointing week however with the financials under pressure following profit taking after a recent strong run, while CRH was lower after two investment banks downgraded their ratings on the company. The focus will be in the US again this week with a further 13 Dow components set to report results with the spotlight on investment banks Citigroup & JPMorgan while earnings from Intel, IBM and Caterpillar will also be closely watched.

## TRADING IDEAS, EARNINGS & PREVIEWS

### CRH

|            |         |
|------------|---------|
| Current    | €27.70  |
| P/E 07     | 10.7    |
| Div 07     | 2.3%    |
| Next event | 3/01/08 |
| Target     | €40.00  |

### BUY

The share price of **CRH** fell by c.10% over the past week, generating another attractive entry level for medium term investors. The company recently confirmed that it has the debt capacity to finance any acquisition of the US and European assets of Mexican cement maker, Cemex, currently under negotiation. Following the group's stronger than expected H1 2007 eps growth of 26% to 92.8c, and its upbeat outlook, we upgraded our 2007 eps forecast from €2.54 to €2.58, representing year on year growth of 15%. This strong H1 earnings growth was driven by particularly buoyant European operating profit growth of 50% to €495m, with growth in US non-residential construction and infrastructure offsetting the impact of lower US residential activity. Only c.8% of CRH's total group operating profit is exposed to US new housing. Our current 12 month share price target of €40 is based on 14.3x 2008 eps of €2.80 : **BUY**.

### IN&M

|            |          |
|------------|----------|
| Current:   | €2.76    |
| P/E        | 14.5x    |
| Div        | 4.8%     |
| Next Event | 21/12/07 |
| Target:    | €3.35    |

### BUY

The share price of **Independent News and Media** also fell by c.10% over the past week, in line with major weakness across the whole Irish market. Last month, the group announced eps of 8.03c for the 6 months ended 30/06/07, representing year on year growth of 8.1%. Strong cost control was a major factor in driving margin expansion of 1.44% to 24.7% at the group's Irish division, which drove 4.7% operating profit growth on flat revenues, and 9% operating profit growth at the group's South African division on revenues that were 4% lower. With over 20% of group profits now generated by the South African division, the group stands to profit from a 2008 recovery in the South African Rand versus the Euro, and the group's UK division also delivered 19.7% operating profit growth, helped by a more stable advertising market. INWS' stronger than sector average current year and forward earnings growth of 12% and 10% respectively warrants a premium valuation. As a result, our current 12 month share price target of €3.35 is based on 15.5x 2008 eps of 21.5c, and rates the shares at a deserved c.10% premium to the current sector average. When combined with a current year dividend yield of c.4.9%, this provides an attractive 12 month total return from current levels : **BUY**.

### AIB

|            |         |
|------------|---------|
| Current:   | €17.15  |
| PE 07      | 8.27    |
| Div 07     | 4.59%   |
| Next event | 7/12/07 |
| Target     | €24.50  |

### BUY

Last week, **AIB's** US business, M&T Bank, in which the Irish bank owns a 24% shareholding, announced its results for the 3 months ended 30/09/07. Underlying eps, excluding an investment loss, of \$1.92, was 1% below the consensus forecast of \$1.94, and was a year on year decrease of 2%. The slightly weaker than expected result was primarily driven by a larger than expected bad debts charge of \$34m, versus \$17m for Q3 2006. However, with M&T contributing c.8% of AIB group earnings, a 1% earnings miss does not have a material impact on group earnings. As a result, any further share price weakness driven by this results' announcement represents an attractive entry level for medium term investors, with next month's results' announcements from Bank of Ireland (14/11) and Anglo Irish Bank (28/11) providing potential positive catalysts for reassuring international investors of the continued strength of Irish banking earnings growth. At a current share price of €16.96, AIB is trading at 8.2x consensus current year eps of €2.07, and is paying a current year dividend yield of 4.6%. It is also worth noting that at a current share price of c.PLN 285, the value of AIB's 51.1m shares in Polish bank, BZWBK, at a EUR/PLN rate of 3.72, has increased by €860m since 06/03/07, from €3.05 bn to €3.91 bn : **BUY**.

### BT

|                |          |
|----------------|----------|
| Current Price: | £3.13    |
| Target:        | £3.40    |
| P/E 07:        | 13x      |
| Div 07:        | 5.00%    |
| Next Event:    | 08/11/07 |

### BUY

On 08/11/07, **BT** is due to release its 2Q results that should provide a positive catalyst for the stock. We believe the group will reassure investors about its outlook to grow revenue, EBITDA, EPS and dividends. To combat the decline in fixed line revenue, BT has been increasing its focus on 'new wave' products such as providing integrated products and networked IT solutions. For the year ended March 2007, new wave products accounted for 36% of group revenues up from 32% previously. Another positive for BT is that it now has a pension surplus of £1.4bn when compared to a deficit of £1.6bn last year. The group currently trades at a discount to peers at a 2008 forecasted P/E of 12.3x and EV/EBITDA of 5.5x versus its peer group of 14x and 6.7x respectively. While we do believe that BT does deserve to trade at a discount to peers given its lack of international exposure, we feel that a multiple of 13x would be more appropriate which generates our price target of £3.40 based on 13x forecasted 2008 EPS of 26p. What should also underpin the group's share price is that it pays a current year dividend yield of 5%.

### Microsoft

|                |          |
|----------------|----------|
| Current Price: | \$30.17  |
| Target:        | \$35.00  |
| P/E 08:        | 17x      |
| Div 07:        | 1.50%    |
| Next Event:    | 25/10/07 |

### BUY

On 25/09/07, **Microsoft** released its Halo 3 video game, which the company said brought in \$300m in sales in its first week. On the first day alone sales totalled \$170m well ahead of the \$120m expected by analysts. Microsoft also said that sales of its Xbox 360 unit more than doubled compared with the weekly average before the debut of Halo 3. This strong sales momentum of the Xbox and Halo 3 should help Microsoft's Entertainment Devices Division (EDD) become profitable for the first time during 2008 and may enable the company to increase its full year 2008 revenue guidance of \$56.8bn-\$57.8bn. On the 25/10/07 Microsoft is due to report its fiscal 1Q results and we expect the company to report a 12% rise in EPS to \$0.39 on revenue growth of 16% to \$12.5bn but the key point to look out for will be guidance for the full year where we believe the company may surprise to the upside. Our price target of \$35 is based on Microsoft trading in line with its peer group of 20x 2008 consensus EPS of \$1.73.

Over the past week, the share price of one of our current Dolmen Dozen top stock picks, **BP**, has risen by c.10%. Even though we re-iterate our BUY recommendation at current levels, keeping it in our Dolmen Dozen selection for Q4 2007, we acknowledge that given the limited further upside to our current share price target that on a one week time horizon, its share price could suffer from some profit-taking : **Take profits**.

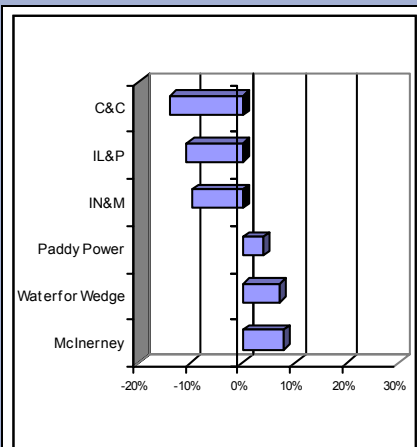
**EARNINGS:** Mon (Phillips, Q3) (Citigroup, Q3) (SABMiller, TS) Tues (Carrefour, Q3) (Intel, Q3) (Johnson & Johnson, Q3) (Yahoo, Q3) (US Bancorp, Q3) (Wells Fargo, Q3) Wed (Rio Tinto, TS) (eBay, Q3) (JP Morgan, Q3) Thur (Nokia, Q3) (SAP, Q3) (Bank of America, Q3) (Bank of New York, Q3) (Google, Q3) (Pfizer, Q3) (DSG International, TS)

**ECONOMIC DATA:** Mon (US Empire Manufacturing), Tues (UK CPI, RPI, Euro-Zone CPI, German ZEW, US Industrial Production), Wed (UK BoE Minutes, UK Employment Data, US CPI, Housing Starts, Building Permits, Beige Book), Thurs (UK Retail Sales, M4 Money Supply, US Jobless Claims, Philly Fed), Fri (UK GDP).

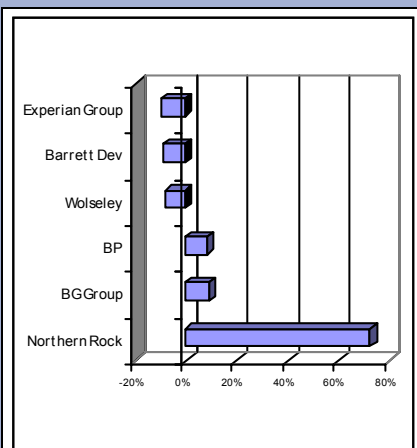
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers 08/10/07-12/10/07

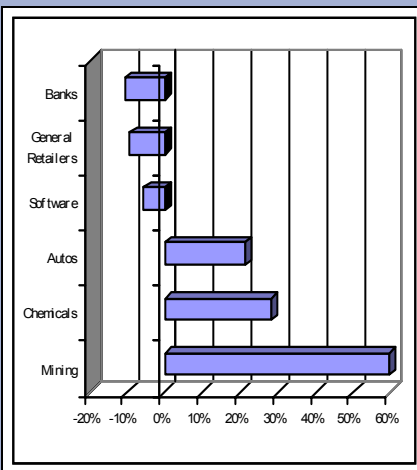
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen WEEKLY UPDATE

| Company   | WTD    | DD Return* | Relevant news  |
|-----------|--------|------------|--|
| AIB       | -6.8%  | -22.7%     | M&T bank announced Q3 results with eps of \$1.92 c.1% below market consensus forecast of \$1.94    |
| Aviva     | +3.4%  | +0.7%      | Received EU approval to buy HSBC's Hamilton Insurance  |
| BP        | +8.0%  | +18.3%     | Ahead of Q3 results on the 23rd of October   |
| CRH       | -9.4%  | -8.1%      | Following further bad news out of the US housing market  |
| Greencore | +0.0%  | -1.3%      | Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations |
| GSK       | -3.8%  | -0.3%      | GSK said it was facing 27 law suits over its Avandia diabetes drug                                 |
| IL&P      | -10.6% | -9.3%      | Continued weakness due to its large exposure to the Irish housing market                           |
| Ladbrokes | -3.2%  | +5.8%      | Received competition approval to sell its pools business in the UK                                 |
| RBS       | -4.2%  | -11.8%     | Its offer for ABN went unconditional last week   |
| Ryanair   | +1.3%  | +6.5%      | Ryanair agreed a 4-year pay deal with its Dublin pilots  |
| SAP       | -5.6%  | -6.3%      | Agreed to buy Business Objects for €4.8bn  |
| Vodafone  | +4.7%  | +30.9%     | Merrill Lynch raised Vodafone's price target to £1.90 from £1.75 previously                        |

|                        |               |                     |               |
|------------------------|---------------|---------------------|---------------|
| DD Unrealised gain YTD | 0.66%         | ISEQ YTD            | -14.01%       |
| DD Realised gain YTD   | -2.78%        | FTSE YTD            | 10.29%        |
| DD Total YTD           | <u>-2.12%</u> | Average performance | <u>-1.86%</u> |
| Relative Performance   | <u>-0.26%</u> |                     |               |

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

### What it says in the 'Sundays'

| Company     | Paper                | Headline                                      |
|-------------|----------------------|---|
| WW          | Sunday Business Post | "WW lacked cash to meet production schedules" |
| United Drug | Sunday Business Post | "United Drug warning over HSE plans"          |
| C&C         | Sunday Business Post | "Bulmers 'needs time' after sales downturn"   |
| ICG         | Sunday Times         | "Lynch ICG bid faces new threat"              |
| Ryanair     | Sunday Times         | "Don't believe airline's gripes"              |
| Oil Sector  | Sunday Times         | "Bets on bids striking oil"                   |
| CRH         | Sunday Independent   | "Surprise guilty plea in CRH pollution case"  |
| Providence  | Sunday Tribune       | "Oil Tax won't hit exploration"               |
| Ryanair     | Sunday Tribune       | "Ego Air ready to take to the skies"          |

### Recent Corporate Visits

| Company    | Change on year | Meeting date | Relevant news   |
|------------|----------------|--------------|---|
| IAWS       | -20.9%         | 28/09/07     | CEO Owen Cillian said that the company will be force to put through food price increases                                  |
| Irish Life | -24.4%         | 11/09/07     | Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins                    |
| FBD        | -31.4%         | 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         | 8,021  | -5.4%      | -14.7%     | 2.3%      | 11.5 |
| FTSE 100     | 6,731  | +2.0%      | +8.2%      | 3.5%      | 12.2 |
| DAX          | 8,041  | +0.5%      | +21.9%     | 2.4%      | 13.7 |
| DOW JONES    | 14,082 | +0.0%      | +12.9%     | 2.1%      | 15.7 |
| S&P 500      | 1,562  | +0.2%      | +10.0%     | 1.8%      | 16.1 |
| NASDAQ       | 2,803  | +0.7%      | +15.9%     | 0.7%      | 27.6 |
| EUROSTOXX 50 | 3,932  | +0.7%      | +6.4%      | 3.4%      | 12.3 |
| NIKKEI 225   | 17,331 | +1.4%      | +0.6%      | 1.1%      | 39.0 |

## Sector

|                     | Weekly move% | YTD move % |
|---------------------|--------------|------------|
| Mining              | +4.7         | +59.4      |
| Chemicals           | +1.1         | +28.4      |
| Autos               | -0.8         | +21.3      |
| Tobacco             | +2.7         | +18.6      |
| Beverages           | +2.6         | +17.2      |
| Technology          | +0.2         | +17.1      |
| Telecoms            | +4.6         | +13.2      |
| Personal Goods      | -1.5         | +13.1      |
| Leisure Goods       | +4.1         | +12.5      |
| Oil & Gas           | +4.3         | +10.0      |
| Construction        | -1.9         | +9.2       |
| Media               | +1.1         | +8.1       |
| Utilities           | +0.8         | +5.8       |
| General Industrials | -0.7         | +2.5       |
| Insurance           | +0.3         | +0.6       |
| Pharmaceuticals     | -1.7         | -2.5       |
| Food Producers      | -0.1         | -3.0       |
| Software            | -2.7         | -5.5       |
| General Retailers   | -2.0         | -9.2       |
| Banks               | +2.1         | -10.5      |

## Commodities

|           | Current | Change YTD |
|-----------|---------|------------|
| Crude Oil | \$83.9  | +26.0%     |
| Gold spot | \$750.8 | +17.7%     |

## Exchange Rates

|         | Current | YTD Change | Year End (est) |
|---------|---------|------------|----------------|
| EUR-USD | 1.418   | +6.9%      | 1.35           |
| EUR-GBP | 0.696   | +3.3%      | 0.665          |
| EUR-JPY | 166.6   | +5.6%      | 145.0          |

## 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%   | 4.66%   | 4.00%          |
| UK        | 5.75%   | 6.29%   | 6.00%          |
| US        | 4.75%   | 4.68%   | 4.75%          |

## Credit Market Summary

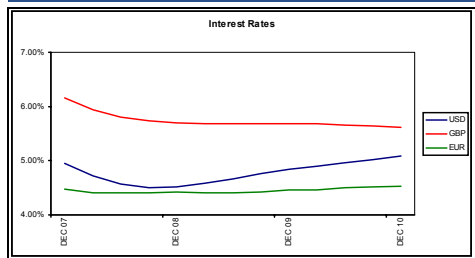
High yield spreads ended the week 30bps (11%) tighter at 280bps. This follows 9 consecutive days of tightening followed by some spread widening (5bps) early Friday. Spreads are trading at levels, which demonstrate the hopeful sentiment in the credit market. While there is still a risk aversion amongst investors, corporate sentiment is strong with credit risk still rooted in financial spreads, which still trade at 3 times the levels seen in June, at 21bsp.

## Credit Sector Movements

**Building materials:** Tighter in the sector – biggest movers were LaFarge and Saint Gobain, tightening 14% and 18% respectively – a sector note from UBS this week was bullish European focused construction stock, and Lafarge in particular as the preferred sector pick. Risk in the sector is centered in the US market, where Moody's downgraded homebuilders this week, warning they are unlikely to see recovery until 2009.

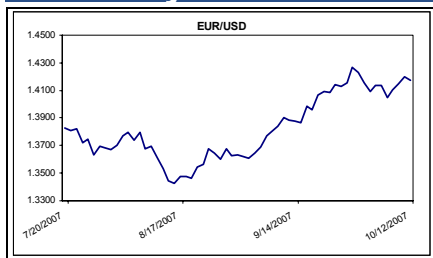
**Telecoms:** Mixed in the sector – Vodafone was the biggest mover this week, tightening 5bps (17%) on acquisition news, and rumours that Arun Sarin, the CEO, is close to leaving. DT tightened 4bps (14%) this week as DT continue to be interested in expanding its broadband offering through acquisition. BT continues to be acquisitive, tightening 2bps (7%) this week

## Interest Rate Outlook

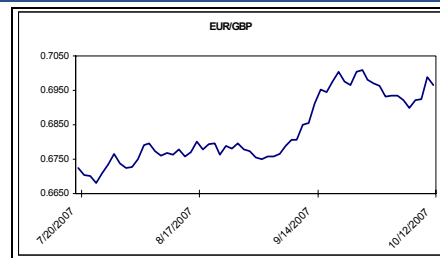


The yield on the US ten-year treasury rose by 5 basis points to trade at 4.68 as traders speculate that the Fed may not lower rates as dramatically as had been expected. The yield on the 10-year German bund also gained ground last week rising by 7 basis points to 4.42%.

## Currency Comment



The € strengthened against the \$ last week to trade close to the \$1.42/€ level as the \$ continues to remain under pressure. All focus will be on the US this week with some key economic releases particularly on Wednesday with inflation and US construction data set for release. A continuing downward trend in inflation would help the case for a further easing of monetary policy.



The € strengthened modestly against the £ last week, however all eyes will be on the UK this week with the BoE set to release minutes for its October meeting where it decided to keep rates on hold at 5.75%. The minutes are expected to show a unanimous vote to have kept rates on hold however any comments indicating a potential easing bias due to recent market turbulence could send £ lower.



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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)