

Traders Update

MONDAY 16TH JULY 2007



Brief Market Comment

While international equity markets basked in the light of strong corporate earnings from bell-weatherers such as General Electric and the continuing M&A theme as Rio Tinto launched a knock-out bid for Canada's Alcan, the Irish market endured another difficult week. The weather induced profit warning from C&C merely added to the recent selling pressure on the entire market, and there has now been a serious decoupling of Ireland Inc. from global markets. The perception by overseas investors continue to be that the Irish economy is facing a hard landing, however anecdotal evidence to date does not quiet support this view. Valuations in the Irish market are looking very attractive and further positive international data should help reverse sentiment in due course.

This week sees the release inflation data out of the US and UK which should provide the market with a further insight into the necessity for future rate moves as well as a further batch of quarter two results out of the US.

Current Trading Ideas

RBS

Current:	€6.40
Target:	€7.20
P/E 07	8.82
Div Yield 07	5.31%
Next Event	03/08/07
Move on week	+0.00%

BUY

This morning, RBS announced a revised takeover bid for ABN, which involves significantly lower equity issuance than the initial bid. The initial bid was based on the assumption that LaSalle remained part of the ABN group, whereas the new bid, at the same €38.40 level per ABN share, is based on the assumption that the LaSalle cash proceeds remain within ABN. As a result, the amount of RBS equity issuance required falls from c.€22bn to c.€5bn now, representing c.565m new RBS shares or 6% of the RBS shares currently in issue, and the cash component of the offer increases to 93%. RBS expects the deal to generate cost savings of €1.3bn and net revenue synergies of €481m by 2010, boosting RBS group eps by 2% in 2009 and by 7% in 2010. One of the explanations given for why RBS has traded in recent times at a c.12% discount to the UK sector average is the risk of it doing a major acquisition. If it were successful now in acquiring ABN, then this discount should start to close as it would have to spend several years integrating ABN before doing another major deal. Without any ABN synergies, RBS is expected to generate 2007 earnings growth of 8%, and our 12 month share price target of £7.20 (13% upside) is based on 10x consensus 2007 eps of 72p.

British Land

Current:	€13.81
Target:	€17.50
NAV 07	16.82
Div Yield 07	2.53%
Next Event	16/08/07

BUY

At its AGM last week, British Land (BL) announced that in the 3 months since 31/03/07, it has achieved property sales of \$1,161m at an average premium of 2.5% to their March year end values. It also stated that it expects its net asset value (NAV) per share as at 30/06/07 to show a further advance on the £16.82 as at 31/03/07, when the figure is announced on **16th August**. It also announced a further 6% increase in its current year dividend to 35p (c.2.5% yield), in addition to the previously announced 94% year on year increase to 33p as a result of the group's REIT conversion, stating that it expects to operate a policy of progressive dividend growth in future years. The company expects to buyback up to £250m worth of its shares over the next 12 months, and with the shares still trading at an 18% discount to historic NAV of £16.82 as at 31/03/07, there is limited further downside risk for the share price from current levels.

AIB

Current:	€20.22
Target:	€24.50
P/E 07	9.96
Div Yield 07	3.92%
Next Event	01/08/07
Move on week	-2.98%

BUY

Last week, **AIB's** US business, M&T Bank, announced eps of \$1.95 for the 3 months ended 30/06/07, which ahead of the consensus forecast of \$1.85, 4% higher than the \$1.87 of Q2 2006, and a 24% improvement of the \$1.57 of Q1 2007. Given the bank's Q1 provisioning in relation to the US Alt A mortgage market, which was driven by the recent problems in the US sub-prime mortgage market, it was reassuring to see the bank's mortgage banking revenues recovering in line with its historical performance, with no further deterioration in this area. The group eps was also helped by the bank's ongoing share buyback programme, and there was a 0.03% improvement in the net interest margin. When the value of AIB's 51.1m shares in Polish bank, BZWBK, and the value of its 26.7m shares in US bank, M&T, are taken into account, the group's core Irish, UK and Capital Markets businesses are now trading at c.8x 2007 earnings and at a price / book ratio of 1.8x. For a bank likely to generate double digit earnings growth in 2007 and 2008, and generating a return on equity in excess of 20%, such valuations indicate that the share price has limited further downside risk. It also appears that the continuing strong growth of the group's Polish and Capital Markets divisions may create the potential for another positive earnings surprise when the bank's results for the 6 months ending 30/06/07 are announced on **1st August**.

British Airways

Current:	€4.39
Target:	€6.00
P/E 07	8.31
Div Yield 07	2.43%
Next Event	17/07/07
Move on week	+1.27%

Buy

Following the 24% fall in the **British Airways'** (BA) share price since its high of £5.77 on 14/02/07, the shares are now trading at 8.3x consensus current year eps of 53p for the year ending 31/03/08. Such an eps would represent year on year earnings growth of 69%. Given the volatility of network airline profits and their different capital structures, EV/EBITDAR is viewed as the most useful valuation metric. Given that the network airlines have historically traded in the 5x to 6x forward EV/EBITDAR range, we consider 5x as a fair multiple for BA. Based on 2007 EBITDAR of £1.8 bn and current net debt of c.£2.1 bn, this gives our current 12 month price target of £6 (37% upside) for each of the 1,151m shares in issue. Given that the major driver of BA's current year earnings growth is expected to be premium and long-haul passenger growth, the airline is somewhat protected from the substantial amount of new short-haul capacity and routes which Ryanair has launched in recent months. Another potential near term catalyst for the share price could be the group's AGM statement tomorrow, **17th July**, and its Q1 results' announcement on Friday fortnight, **3rd August**.

C&C

Current:	€8.30
Target:	€9.35
P/E 07	15.09
Div Yield 07	3.30%
Next Event	21/08/07
Move on week	-16.99%

Buy

Previously, we had considered that C&C Group would generate current year operating profit growth of 15%, which pre-exceptuals implied operating profit of €230m and eps of c.63c. We had considered this to be a reasonably conservative forecast to take account of the unusually bad summer weather so far this year, given that this represented the bottom end of the company's previous wide guidance range for between 15% and 25% operating profit growth. However the weather and intensified competition have considerably impacted the company's outlook, and C&C now expects full year operating profit to only match last year's €199.6m based on the very poor weather of June and into July, implying that growth in the premium packaged cider category may be significantly more dependent on good early summer weather than previous guidance. Even though zero operating profit growth would imply eps growth of c.5%, assuming that €300m is spent buying back and cancelling C&C shares at an average price of €9, an interest charge c.€10m higher this year would eliminate this growth, implying a flat full year eps of c.55c. Peers such as Diageo, SABMiller and Heineken currently trade at an average of c.20x current year eps, so if we assume that a 15% discount is merited until greater clarity is provided over the trading outlook, then our revised 12 month share price target of €9.35 (13% upside) is based on 17x current year eps of 55c.

EARNINGS: TUES (Coca-Cola, Q2), (Merrill Lynch, Q3), (Bank of Ireland, AGM), (British Airways, AGM) WED (Pfizer, Q2), (Rio Tinto, Q2) THUR (Iona Technologies, Q2), (Bank of America, Q2), (Google, Q2), (Microsoft, Q2) FRI (DCC, AGM)

ECONOMIC DATA: Monday (Euro-Zone CPI, US Empire Manufacturing), Tuesday (UK CPI, RPI, German ZEW, US PPI, Industrial Production, NAHB Housing Index), Wednesday (UK BoE Minutes, Unemployment Rate, US CPI, Housing Starts, Building Permits) Thursday (UK Retail Sales, US Jobless Claims, Bernanke Testimony on Monetary Policy, Philadelphia Fed, FOMC Minutes), Friday (UK GDP).

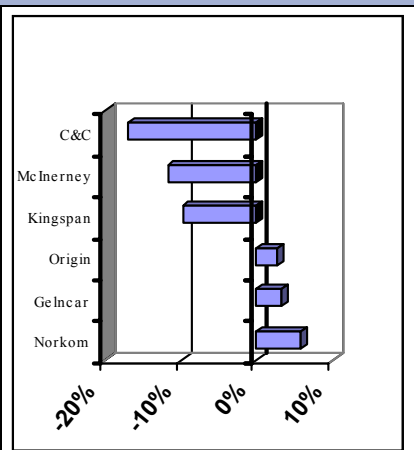
This Week's
Calendar Events

DOLMEN STOCKBROKERS Traders Update

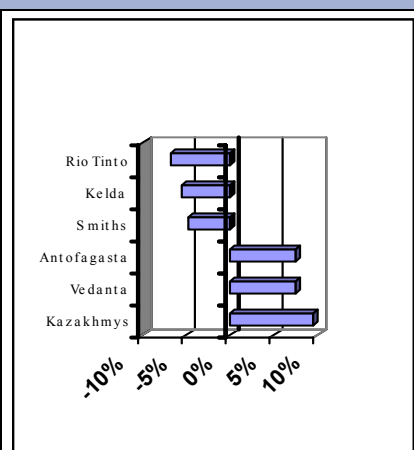
Last Weeks Best/ Worst Performers

09/07/07-16/07/07

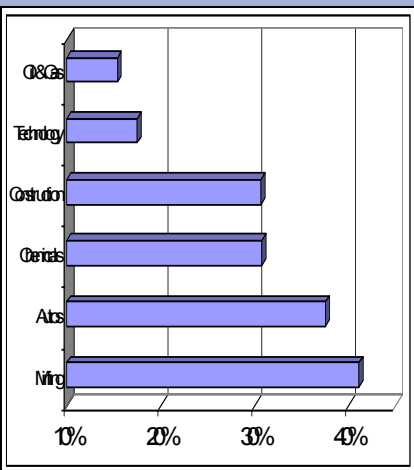
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	20.22	-2.98%	-10.35%	M&T Bank reported 2Q EPS of \$1.95 that beat analyst estimates of \$1.85.
Aviva	7.63	-0.20%	-4.18%	Press reports suggest Aviva may drop Norwich Union brand
BP	6.13	0.41%	11.59%	Crude oil has rises to an 11 month high and now trades in excess of \$74
B. Land	13.81	0.88%	-18.40%	Issued a positive trading statements and sees progressive dividend growth in the future
C&C	8.55	-16.99%	-18.80%	Lowered full year operating profit guidance to flat growth from 15%-25% previously
CRH	36.61	-2.99%	19.03%	On continuing concerns of a slowing US residential market
GNC.	5.25	-3.67%	16.06%	Greencore is subject to ongoing takeover speculation
GSK	12.89	-0.15%	-1.89%	JP Morgan upgraded the stock to neutral from under weight with a price target of 1350p
LAD.	4.48	1.41%	11.23%	Deutsche Bank upgraded the company to buy from hold
RBS	6.40	0.00%	0.72%	RBS led group sweetens its €71.1bn offer for ABN Amro by increase cash portion to 93% from 79%.
Ryanair	5.03	-3.45%	-5.54%	Announced another 250,000 free seats offer
VOD.	1.63	-0.31%	20.41%	Ahead of KPIs due on the 19th of July

DD Unrealised gain YTD	1.70%	ISEQ YTD	-3.07%
DD Realised gain YTD	2.71%	FTSE YTD	8.77%
DD Total YTD	4.41%	Average performance	2.85%
Relative performance YTD	1.56%		

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

What it says in the 'Sundays'

- "ISEQ in the firing line" **ISEQ - Sunday Business Post**
- "Cardpoint deal could enable Alphyra refloat" **Cardpoint - Sunday Business Post**
- "Save your cash for the iPhone - Apple" **Apple - Sunday Times**
- "Aviva must get moving" **Aviva - Sunday Times**
- "AIB should exit M&T" **AIB - Sunday Independent**
- "AIB to exit M&T" **AIB- Sunday Tribune**

Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Metro Baltic	-3.40%	13/07/2007	James Kenny reiterated 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	-11.89%	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
Glanbia	37.16%	18/06/2007	Deputy Group Managing Director Geoff Meagher re-iterated recent guidance of double digit eps growth for 2007.

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	9135	-3.35%	-2.91%	2.02%	14.41
FTSE 100	6717	0.40%	7.97%	3.54%	14.12
DAX	8093	0.55%	22.68%	2.42%	14.66
DJ INDUS. AVG	13892	2.05%	11.45%	2.05%	18.54
S&P 500	1549	1.23%	9.23%	1.74%	18.25
NASDAQ	2696	1.13%	11.65%	0.63%	41.02
DJ STOXX 50	3992	0.32%	7.97%	3.34%	14.00

Sector

	WEEKLY MOVE %	YTD MOVE %
Mining	3.02	41.13
Automobiles & Parts	-1.12	37.55
Chemicals	2.09	30.78
Construction & Materials	-0.02	30.69
Technology Hardware & Equipment	-0.22	17.44
Oil & Gas Producers	0.42	15.37
Tobacco	-1.22	13.77
Leisure Goods	-0.83	13.44
Media	1.28	12.93
Beverages	1.41	9.37
Personal Goods	-1.19	8.80
Food Producers	2.68	5.91
Telecommunications	0.27	5.88
Gas, Water & Multiutilities	-0.70	1.04
Pharmaceuticals & Biotechnology	0.52	0.43
General Industrials	2.93	0.38
Insurance	0.07	0.31
Banks	0.08	-0.38
General Retailers	0.68	-1.99
Software & Computer Services	1.36	-8.76

Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$73.69	12.60%
Gold Spot	\$665.95	4.52%

Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.379	4.29%	1.35
EUR-GBP	0.678	0.57%	0.665
EUR-JPY	168.34	6.60%	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%	4.25%
UK	5.75%	6.00%
US	5.25%	5.25%

Credit Market Summary

A very volatile week for the credit markets, with the investment grade and high yield credit indices widening 28% and 25% respectively before the contagion effect of positive earnings releases and higher US equities caused a 7% tightening for both indices on Thursday. The investment grade index closed the week 20% wider at 30bps while higher yield spreads were 17% wider over the week at 276bps. To put these spread moves into context we note the investment grade index is 46% wider and the higher yield index is 50% since early June.

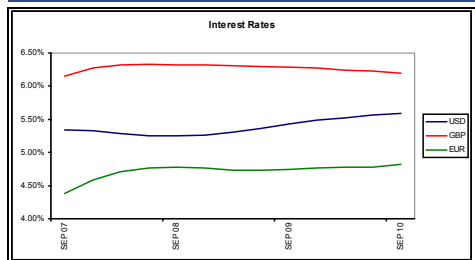
Credit Sector Movements for week ended 09/07/07

Building materials: Wider in the sector – Heidelberg widened 15bps this week after the company received bids for its Maxit division. Markets are speculating that bidders may include private equity firms, Bain Capital, Blackstone Group, CVC Partners or EQT partners. This private equity interest sparked marginally wider spreads in both La Farge and Saint Gobain, while CRH (lightly traded) was unchanged.

Chemicals: Mixed in the sector – both ICI and AKZO widened this week, 5bps and 6bps respectively, on rumours of a 675p bid from Akzo for ICI. Other chemical names widened this week on the back of consolidation rumours, Bayer +4bps; BASF +2bps and Linde +2bps

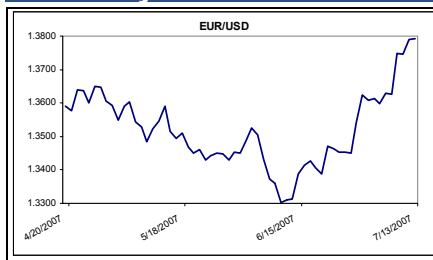
Airlines: Volatile in the sector – Rolls Royce was the biggest mover, with spreads widening 4bps (23%) following reports in the press that the company may be a suitable candidate for take over. Buyout talks continued after Iberia opened its books to private equity group TPG and British Airways fueling speculation that BA may take a bigger stake in Iberia. BAE systems 2bps wider over the week

Interest Rate Outlook

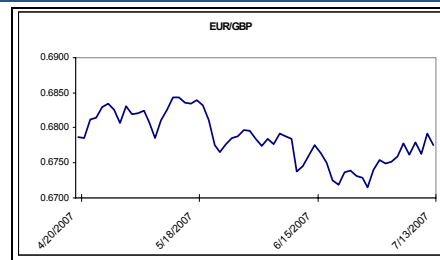


The 10-Year US Treasury Yield fell to 5.09% last week, as safe haven buying emerged amid fresh concerns about credit markets with numerous credit agencies downgrading bonds backed by subprime mortgages.

Currency Comment



The euro broke through the \$1.38 mark on Friday before easing slightly following a disappointing Retail sales figure from the US. The \$ may recover during the week however with Bernanke's testimony to congress on Thursday expected to be on the hawkish side, while minutes from the FOMC are also expected.



The Euro continues to trade relatively flat with GBP, although all focus will be in the UK this week with inflation data and Bank of England Minutes due. GBP may strengthen if inflation data for June does not fall as expected.



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