DOLMEN STOCKBROKERS

Traders Update

MONDAY 19TH NOVEMBER 2007

Market Comment

Financial markets endured a difficult week as persistent credit concerns triggered a fresh bout of risk aversion, keeping global equities under pressure and under-pinning gains for government bonds. Relatively encouraging news on mortgage-related writedowns from leading investment banks failed to lift the gloom, a point highlighted by the price action in Barclays, following the UK bank's lower than feared write-down. Interbank rates were partly to blame for the continued poor performance of the banking sector as they spiked higher as banks continued to be reluctant to lend to each other given the current credit uncertainty. The stress in money markets was highlighted by a rise in the three-month sterling Libor Rate to its highest level since September 19, the day after the Fed cut its target Fed funds rate 50 basis points. For those investors looking for a sign that it may be safe to return to the financial stocks, this barometer of cost of capital should be watched closely, a point re-iterated by Bank of Ireland during a post-results presentation to Dolmen last week.

The coming week should be quieter than recent ones as the Thanksgiving Day Holiday in the US punctuates trading. With little economic data of note, investors will take this opportunity to pause for breath and attempt to determine where to next for these markets.

TRADING IDEAS, EARNINGS & PREVIEWS

Irish banks — view post Bank of Ireland's results

The share prices of the **Irish banks** continued to be driven lower last week following Bank of Ireland's (BOI) results' announcement for the 6 months ended 30/09/07. The bank reduced its full year earnings growth guidance from low double digit to high single digit, primarily as a result of the net interest margin squeeze from higher funding costs and lower Irish retail earnings growth from the recent slowing of Irish economic growth. We were encouraged by the bank's continued robust credit quality and outlook in this area, with a bad debts charge of only 0.12% of average loans, and had already expected group loan growth to slow to c.9% next year. As a result, higher funding costs were the main cause of us reducing our current year eps forecast from €1.60 to €1.55, implying 8% full year growth, with group eps growth slowing to 3% to €1.60 for the 12 months ending 31/03/09. Our current 12 month share price target of €14 (38% upside) takes account of this lower earnings growth outlook as it is based on 9x current year eps of €1.55, and with the shares also paying a dividend yield of c.6.7% for waiting for this upside to be achieved, we re-iterate our BOI BUY recommendation at current levels. However, the greater international diversification of AIB's earnings stream and its lower exposure (c.6%) to Irish mortgage lending mean that it remains our top pick currently in the Irish bank sector ahead of its year end trading statement in the first week of December. We also re-iterate BUY recommendations at current levels for Irish Life & Permanent, ahead of its year end trading statement during the second week of December, and for Anglo Irish Bank, ahead of its full year results' announcement on Wednesday week, 28th November.

Ryanair

Current Price : €5.05
P/E 08 : 16.4x
Target : €6.50
Next Event : 5/12/07
BUY

Ryanair recently announced net profit of €268.7m for the 3 months ended 30/09/07, largely in line with consensus forecasts of €270m, and a year on year increase of 26%. The company upgraded its full year net profit guidance to 17.5% growth, from 10% in July and 5% previously, largely as a result of lower than expected winter yield erosion, which is now expected to be toward the lower end of the previously indicated 5% to 10% range. One of the main causes of the share price correction of recent weeks has been that the airline's fuel hedging for next year remains low at only 10% of the Q3 requirement. However, with previous oil price spikes proving to be a competitive advantage as a result of lowest in sector unit costs, medium term earnings growth prospects should remain largely unaffected. As a result, our current 12 month share price target of €6.50 is based on 20x forward eps of 32.5c, and the current share price of c.€5 represents an attractive entry level. Tomorrow's full year results' announcement from low cost peer, EasyJet, could re-ignite some interest in the sector**.**

INWS

Current : €2.27
P/E 07 : 11.9x
Div 07 : 5.9%
Target : €3.35
BUY

Last week, UK peer of **Independent News & Media** (INM), Trinity Mirror, released a trading statement for the 10 months ended 31/10/07, which confirmed that there has been a "gradual improvement" in the UK advertising market in 2007. In the 4 months to the end of October, there was an increase in advertising revenues of 2.7%, compared with a decline of 1.5% in H1 2007, indicating that underlying trends appear to be strengthening. With circulation revenues also increasing by 0.8%, this augers well that a significant year on year improvement in the Irish media group's UK business will be reported in its year end trading statement next month. INWS' stronger than sector average earnings growth warrants a premium valuation, even though at 10.5x consensus 2008 eps of 21.5c, the shares are now trading at a 12% discount to the current European newspaper sector average of c.12x. The shares will also pay a current year dividend yield of 6.1% for waiting for this discount to close. Next month's year end trading statement should help lift for the share price from its current c.€2.30 level.

HP

Current : $50.75
P/E 08 : 15.5x
Div Yield : 0.70%
Target : $59.00
BUY

After the US close tonight, **Hewlett-Packard** (HP) is due to release its fourth-quarter results for the period ending 31/10/07. The group is expected to report a 21% rise in EPS to $0.82, while revenue is expected to show an 11% increase to $27.4bn. Gross margin is forecasted to remain stable at c. 24%. Recent results from large cap technology companies have been extremely strong and there is no reason why HP cannot replicate these results. Microsoft's recent first quarter results for 2008 showed that its two largest divisions Microsoft business and Client posted sales growth in excess of 20% driven by robust demand for Vista and as a result Microsoft raised its full year 2008 guidance. Intel also recently produced a strong set of third quarter results driven by strong demand for PCs and notebooks which should provide a natural positive read across for HP.

Ladbrokes

Current : £3.40
P/E 07 : 13.6x
Div 07 : 1.6%
Target : £4.80
BUY

Last Thursday the 15/11/07 **Ladbrokes** released a trading statement. The company announced operating profit increase 84%. However when high rollers from its telephone business were stripped out operating profit declined 12%. The weakness was a result of weakness from its UK retail division. The company stated the with the smoking ban, race cancellations in July and a poor run of football results in August (its worst in 8 years) all contributed to the weakness. We view the current share price weakness as an ideal opportunity to buy. The shares are currently trading at 9.7x forward earnings, compared to William Hill which trades at 11x forward earnings and Paddy Power who trades at 20x earnings. We are maintaining our £4. 80 price target which is based on 13.6x forward earnings of £0.35 a share.

Kingspan

Current : €14.60
P/E 07 : 13.9x
Div 07 : 2.4%
Target : €21.00
BUY

On the 3rd of September **Kingspan** announced results for the 6 months ended 30/06/07. Operating profit and eps of €114.2m and 52.7c respectively were 5% and 8% ahead of the consensus forecasts of €108.9m and 49c, and were both year on year increases of 30%. The company's outlook statement noted that order books in key areas are stronger than ever and full year operating profit growth for 2007 of "at least" 20% can now be expected, a slight upgrade on the previous guidance for growth "in the region of 20%". With new regulations been introduced in Ireland and the UK with regard to energy efficient home, Kingspan is in prime position to benefit and help it grow earnings above the sector average for the foreseeable future. With a trading statement out on the 18th December we feel the company's share price should benefit greatly from what we expect will be a positive statement.

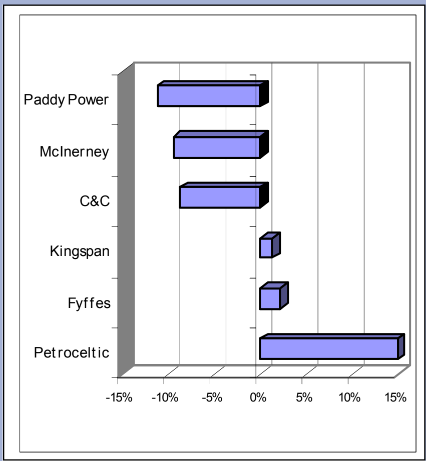
Week's Events

EARNINGS: Mon (Hewlett-Packard, Q4) (Barrett Developments, TS) Tues (Analog Devises, Q4) (EasyJet, FY) (Scottish & Newcastle, Interim) (Enterprise Inns, FY) Wed (Daily Mail & General, FY) Thurs (Air France, Interim) (Morrison, TS)

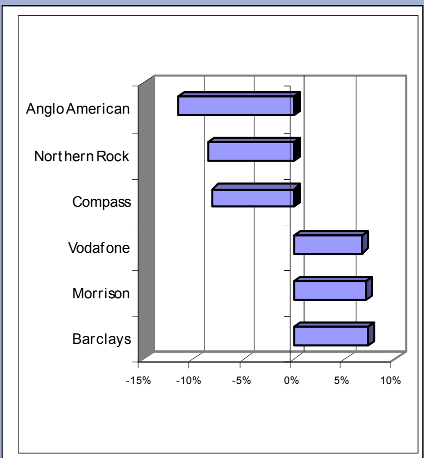
ECONOMIC DATA: Tuesday (German PPI, Import Price Index, UK M4 Money Supply, US Housing Starts, Building Permits, FOMC Minutes), Wednesday (BoE Minutes, Jobless Claims, Michigan Confidence, Leading Indicators) Thursday (German GDP), Friday (Euro-Zone PMI, UK GDP)

Last Weeks Best/ Worst Performers
12/11/07-16/11/07

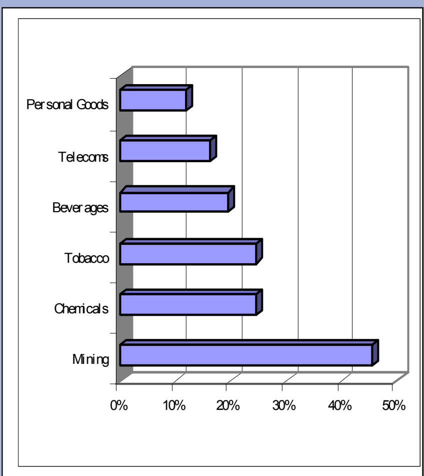
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	DD Return*	Relevant news
AIB	-1.1%	-32.74%	M&T bank announced Q3 results with eps of $1.92 c.1% below market consensus forecast of $1.94
Aviva	-1.8%	-14.2%	Aviva is aiming to cut costs by £350m by the end of 09 in a move that could lead to further job cuts
BP	-2.0%	+11.4%	Announced results recently with underlying replacement cost net profit 2% ahead of consensus
CRH	-1.3%	-20.6%	A number of European peers announced results recently, all beat expectations.
Greencore	+1.8%	+1.5%	Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations
GSK	-0.2%	-6.1%	Recently announced Q3 results with EPS of 23.7p, c.1% below consensus forecasts
IL&P	-3.2%	-18.8%	Continued weakness due to its large exposure to the Irish housing market
Ladbrokes	-8.6%	-12.1%	Posted a 4 month trading statement last week with operating profit up 84%, UK retail was disappointing
RBS	+6.2%	-29.7%	Follow Barclays positive comments regarding profit for the 10 month even after writedowns
Ryanair	-1.4%	-4.2%	UK peer EasyJet releases full year figures this week
SAP	-0.7%	-17.6%	Close to reaching its €1bn netweaver sales target for 2007
Vodafone	-6.7%	+41.7%	Results on Tuesday beat expectations, company raised full year guidance

DD Unrealised gain YTD	-7.65%	ISEQ YTD	-25.20%
DD Realised gain YTD	-2.78%	FTSE YTD	3.39%
DD Total YTD	-10.43%	Average performance	-10.90%

Relative Performance 0.48%

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

What it says in the 'Sundays'

Company	Paper	Headline
C&C	**Sunday Times**	"Festival hangover for cider boss"
Vodafone	**Sunday Times**	"Mobile giant revs up again "
Quinlan	**Sunday Times**	"Quinlan in $500m US fund deal "
Bank of Ireland	**Sunday Business Post**	"BoI may change it policy on paying dividends "
AIB	**Sunday Business Post**	"Developers take advantage of new loophole"
C&C	**Sunday Business Post**	"C&C banks on Christmas cider sales"
Bank of Ireland	**Sunday Independent**	"Under a tenner, BoI is a barging"
ISTC	**Sunday Tribune**	"Future in doubt"
United Drug	**Sunday Tribune**	"HSE plans trouble United Drug"

Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
Bank of Ireland	-41.8%	15/11/07	Company CFO John O'Donovan reassured on credit quality and loan growth for 2008
IAWS	-17.1%	28/09/07	CEO Owen Cillian said that the company will be force to put through food price increases
Irish Life	-33.4%	11/09/07	Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Div Yield	P/E
ISEQ	7023	-1.9%	-25.3%	2.7%	10.5
FTSE	6318	-0.2%	+1.7%	3.7%	12.2
DAX	7623	-2.4%	+15.5%	2.6%	13.2
DOW JONES	13178	+1.0%	+5.7%	2.3%	16.2
S&P 500	1459	+0.4%	+2.9%	1.9%	18.1
NASDAQ	2627	+0.4%	+9.2%	0.7%	37.6
EUROSTOXX 50	3671	-0.6%	-0.8%	3.7%	11.8
NIKKEI 225	15043	-1.0%	-12.7%	1.4%	28.1

Sector

	Weekly move%	YTD move %
Mining	-3.92	45.41
Tobacco	3.98	24.41
Chemicals	-1.98	24.41
Beverages	0.46	19.24
Telecommunications	2.78	16.03
Personal Goods	1.98	11.84
Technology	-1.25	9.33
Oil & Gas	-2.71	7.32
Utilities	0.82	6.11
Food Producers	3.13	4.14
Autos	-3.11	3.80
Construction	-0.38	2.44
Leisure Goods	-3.20	-1.65
Media	-0.13	-2.46
General Industrials	-4.20	-7.66
Pharmaceuticals	-0.21	-10.51
Insurance	-0.09	-10.56
General Retailers	-0.92	-17.34
Software	-3.40	-17.45
Banks	1.11	-20.93

Commodities

	Current	Change YTD
Crude Oil	$94.9	+41.7%
Gold spot	$788.6	+23.9%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.464	+9.8%	1.42
EUR-GBP	0.715	+5.7%	0.705
EUR-JPY	161.9	+2.86%	165.0

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%	4.62%	4.00%
UK	5.75%	6.45%	5.75%
US	4.50%	4.98%	4.50%

Credit Market Summary

High yield spreads ended the week 11bps (3.1%) wider at 370bp having seen swings mid-week to 380bps and lows of 357bps – this volatility in the market is fuelled by the psychological distrust amongst investors as much as the fundamental increased market risk due to the on-going sub-prime write-downs and its contagion effect throughout the market. Outlook remains negative, with high yield spreads expected to 400bps in the near term due to ongoing negative news flow and market sentiment.

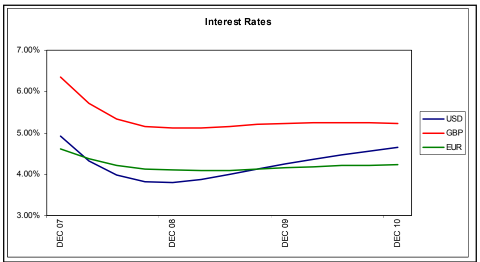
Credit Sector Movements

Airlines: British Airways widened 13.5bps (10%) this week after the airline an its private equity partner were rumoured to be seeking a €2.5b loan to finance the purchase of Iberia – spreads widened on the expectation of a probable premium on debt issued in the current credit climate.

Telecoms: BT was the biggest mover, widening 15% as the company issued bonds this week at 130bps above treasuries. The good news is that the market has a preference for corporate rather than financial bonds, as BT increased the issue by £250m to meet investor demand.

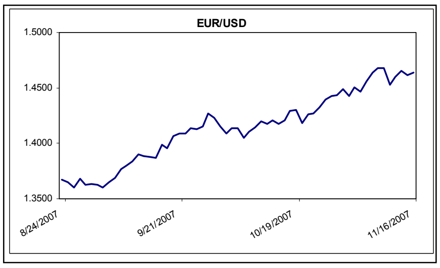
Retail: Morrisons and Marks and Spencer's were the biggest movers, widening 16% and 20% respectively – this week both Tesco and Sainsbury reported UK market share gains while Morrisons reported a 0.1% loss to 11.1%. This is despite Morgan Stanley this week upgrading UK retailers, citing a December UK rate cut as a potential catalyst for consumer spending over Christmas.

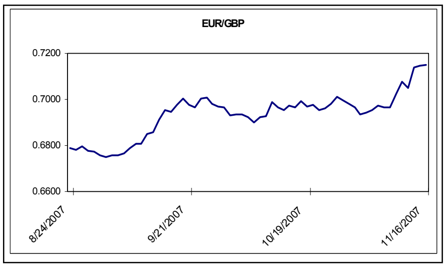
Interest Rate Outlook



The uncertainty in financial markets continues to drive bond prices higher as investors flock to safe haven securities. The yield on the US 10-year treasury fell to 4.13% on Friday, it lowest level since September 2005, although it rose to 4.17% by the end of the day, down 4 basis points over the week.

Currency Comment





The US dollar remained relatively flat against the euro finishing the week at $1.4662. The main focus for this week will be in the US on Tuesday with housing data due as well the minutes from the FOMC's October meeting. Expectations are increasing that the Fed will be forced to cut rates again when in meets on December 11th and any weak data and dovish comments from the FOMC could weaken the dollar.

The euro strengthened against the pound to finish the week well above the psychological £0.70 mark at £0.7137 as the Bank of England (BoE) signalled that it was ready to lower interest rates in 2008. The BoE pointed out that recent turmoil in financial markets 'poses the biggest downside risk' to the UK's economy.

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