DOLMEN DAILY

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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9168 ↑	60	0.66%	14.1	-2.55%
FTSE 100	6640 ↑	73	1.11%	13.2	6.74%
DAX 30	7991 ↑	98	1.24%	14.2	21.14%
DOW	14000 ↑	82	0.59%	15.2	12.33%
NASDAQ	2720 ↑	21	0.76%	26.1	12.62%
S&P	1553 ↑	7	0.45%	15.9	9.50%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3788	0.6717	168.4800
Dollar	1.3788	1.0000	2.0524	122.2400
Sterling	0.6717	2.0524	1.0000	250.8100
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	75.9200			

This Week's Research

C&C Group
FBD
Metro Baltic
Bank of Ireland

Today's Research

BAE Systems

Breaking News

DCC raises full-year operating profit forecasts

DCC has raised its operating forecast after it said it had made a 'satisfactory' start to the year. DCC now expects low double-digit operating profit growth in the full year through March 31st 2008 up from the high single-digit growth it forecasted in May. The group pointed out that its business is significantly second half weighted and in the current financial year it has budgeted for approximately 70% of group profits to be earned in the second half of the year. DCC also said that the formal sale process of Manor Park in which it holds a 49% stake is ongoing and a further announcement will be made in due course. Elsewhere, DCC announced that it is to acquire CPL Petroleum Ltd for €74.2m in cash. CPL Petroleum is a leading supplier of transport fuels and heating oils to commercial, industrial, domestic and agricultural customers through out Britain.

Elan's Tysabri rejected in Europe for Chron's disease

Elan and Biogen Idec's multiple sclerosis drug Tysabri was rejected by European regulators as a treatment for Crohn's disease due to insufficient evidence that it worked against the bowel disorder. The European Medicines Agency said that studies performed by Elan showed that Tysabri failed to show that effectiveness of the drug failed to outweigh the risk of serious infection. The rejection raises concern that US regulators may also refuse to approve Tysabri for Chron's disease. An advisory panel of the US Food and Drug Administration is scheduled to review Tysabri on July 31st.

Microsoft Q4 results in line with expectations

Microsoft has reported fourth quarter EPS that rose by 10.7% year on year to $0.31 and in line with analyst expectations, while revenue rose by 13% to $13.4bn. Microsoft's profit was held back as it had to take on more than $1bn in costs to fix faulty Xbox video-game consoles. Microsoft raised its forecasts for this year slightly, though projections were in line with expectations. The group expects EPS of $1.69-$1.73 on revenue of $56.8bn-$57.8bn, compared with the consensus of $1.72 and $57.9bn.

Today's Recommendation

BAE Systems (£4.20) Initiating coverage Stuart Draper
Target : £4.50

- Recent weakness : BAE Systems has experience a recent drop off in its share price due to an investigation by the US Department of justice (DoJ) over alleged payments by the company to Saudi officials to secure military contracts. The UK Ministry of Defence, who subsequently dropped the case, had already investigated BAE over these allegations. A similar outcome is expected in the US. There has been an c.11% drop off in the share price on account of this investigation from £4.71 in April to a close yesterday of £4.21. The main fear was that the company along with receiving a fine may start to lose out on US contracts. However this fear has been alleviated by the recent good flow of US defence contracts to BAE.
- Armor acquisition : Yesterday BAE's $4.1bn attempted takeover of Armor Holdings received approval after it cleared the US antitrust process. Armor Holdings shareholders are now expected to vote on the deal on July 25. If the takeover goes ahead it will be a good strategic fit for the company, generating c.$3.5bn in revenue and c.$300m in operating profit for 2008 with immediate cost savings of around $30m. The acquisition is to be funded by £750m of new equity, from existing cash on the balance sheet (£3.1bn at year end 2006) and $388m of debt.
- Upcoming catalysts : BAE announce H1 earnings on August 9. The company is expected to report earnings per share growth of 12% mainly driven by good organic growth in the Land & Armaments division. Also the company is expected to sign a deal with Saudi Arabia to supply it with the Eurofighter in the second half of the year.
- Company valuation : Given the expected eps growth of BAE Systems we feel there is no reason that the company should trade at a discount to the average of its UK and US peers. Therefore we are initiating coverage with a price target of £4.50 (c.7% further upside), based on 15x 2008 earnings of 30p per share. Including the company's c.3% dividend we feel that there is sufficient total return from current levels to initiate coverage with a buy recommendation: **BUY**

Business Press

- Tullow and Burren eye oil riches of Sahara (II)
- Smurfit Kappa to reduce debt cost after agreement (IT)
- Irish housing starts slump 17.5% (IE)
- ABN Amro warming to consortium's buy-out plans (FT)

Investment Press

- Google falls short: Breaking speed records can be an expensive game. Google is starting to show it is not necessarily an exception.

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