DOLMEN STOCKBROKERS

Traders Update

MONDAY 21ST JANUARY 2008

Market Comment

To say that the start of the new trading year has been volatile has got to be the understatement of the year so far. But a closer look at the trading pattern of the Dow Jones makes pretty grim reading. To date there have been 13 trading days, and of those 13 we have had 8 down days and 5 up-days. Nothing strange with that you'd say until the figures are broken down further which reveals only three days of double-digit moves and all the others triple-digit moves. The average fall for the down-days stands at 220 points compared to a paltry average of 95 points for the up-days. What makes the above statistics more disconcerting is that in the last ten days the markets have been given the clearest signal yet by a central banker that aggressive rate easing was a sure thing, a point Mr. Bernanke confirmed in his testimony to Congress last week. Add to this the promise of a fiscal stimulus package from Pres. Bush and markets should have shown some more resilience. The difficulty for investors at this point in time is that any of the news flow from the global economy, be it retail sales in the US or UK, house prices or manufacturing data, is deteriorating and any monetary or fiscal actions introduced will take time to take effect. Further complicating the outlook for markets is the renewed concern for the banking sector of default by bond insurers. As Merrill Lynch found out last week, such a default can be costly, as it wrote off $3.1bn or 100% of its bond insurance. While the authorities are at last making the right noises about rescuing the economy, the lag effect will mean the equity market volatility will continue for a while yet and as such we still recommend clients to take focus on the more defensive sectors.

TRADING IDEAS, EARNINGS & PREVIEWS

Upcoming Irish final dividends

Next month, **AIB** and **Irish Life & Permanent** (IL&P) will announce full year results on 20/02/08 and 27/02/08 respectively. In March, **Independent News & Media** (INM) will announce full year results on 19/03/08, and then in May, **Bank of Ireland** (BOI) will announce full year results on 21/05/08. The final dividends per share alone going ex in the months following the announcement of these results now represent attractive yields on current share prices. AIB's final dividend per share of c.51c is expected to go ex on c.**14/03/07**, representing a yield of **3.5%** on the current share price, and IL&P's final dividend per share of c.52c is expected to go ex on **23/04/08**, representing a yield of **5.1%** on the current share price. INM's final dividend per share of c.8.9c is expected to go ex on c.**18/04/08**, representing a yield of **4%** on the current share price, and BOI's final dividend per share of c.43.6 is expected to go ex on **28/05/08**, representing a yield of **4.8%** on the current share price.

RBS

Price: 364p
P/E: 5.2x
Div: 8.95%
Target: 575p

Fundamental view : Given that last month's **Royal Bank of Scotland** (RBS) trading statement confirmed that the bank's Tier 1 ratio as at 31/12/07 will be comfortably within its targeted range of between 7%-8% as a result of disposals and balance sheet management, we are comfortable with our current 2007 and 2008 dividend per share forecasts of 33p and 37p respectively. As a result, we expect a 2007 final dividend per share of 22p net to go ex on c.7th March. As this final dividend alone represents a yield of 6.0% on the current share price, it may generate some buying interest ahead of the March ex date. The December trading statement also confirmed that RBS' remaining total exposure to CDO's, SIV's and other sub-prime assets is relatively low at £5.15bn, versus £11.1bn of similar assets at Barclays.

Next Catalyst: Our current 12 month share price target of £5.75 is based on 8x 2008 eps of 72p, with the shares also paying a current year dividend yield of 10.2% for waiting for this upside to be achieved. In conjunction with RBS' full year results' release on 28th February, we also expect the bank to issue specific earnings guidance for 2008, which could act as a positive catalyst for major share price upside from current levels. Other potential positive catalysts between now and then include a continuation of the recent trend of a return to more normal credit market conditions, a 0.5% cut in the US base interest rate on Wednesday week, 30th January, and a 0.25% cut in the UK base rate, a week later, on 7th February.

Chart view: If the stock can show resilience and form a support area then it can begin to look at the 412 level. A close above 412 would break the short term downtrend and improve the outlook.

Anglo Irish

Price: €8.90
P/E: 5.9x
Div: 2.2%
Target: €15.00

Fundamental view : One of the reasons reported for the recent weakness in the share price of **Anglo Irish Bank** was lower US loan growth prospects. However, the recently reported Q4 2007 results of AIB's US associate, M&T Bank, showed commercial real estate loan growth of 22% in Q4, as the dislocation in the securitisation market resulted in a resumption of "more normalised" banking for the traditional lenders. This was a point made by Anglo in conjunction with its full year results' announcement in November that the dislocation of the securitisation markets was creating loan growth opportunities, particularly in the US. M&T also specifically mentioned particularly strong commercial loan growth in the metropolitan New York area, a region which accounts for c.38% of Anglo's overall US lending.

Next Catalyst: A potential near term positive catalyst for the Anglo Irish Bank share price could be a trading update issued in conjunction with the bank's AGM statement on Friday week, 1st February. In each of the past 3 years, Anglo's AGM statement has acted as a catalyst for positive share price performance in February, and given the current very low rating of the shares of 5.9x current year eps of €1.52, there is the potential for the statement to drive some significant share price upside in February from current levels

Chart view: Downtrend continues with negative momentum. Approaching strong support at €8.64. If this support is broken then expect more downside. A close above the €10.35 area would break the recent downtrend and give the chart a more positive outlook.

Microsoft

Price: $33.01
P/E: 18x
Div: 1.3%
Target: $40.00

Fundamental view : Last week we had some exceptionally strong earnings reports from software providers IBM and SAP. While there has been concern over the last number of weeks that technology spend by corporate's may be reduced next year due to the economic downturn, software spend appears to be holding up relatively well. As **Microsoft** is the largest and most diversified technology company we feel that it will be well insulated from an economic downturn. We feel that the recent weakness in Microsoft's shares, in line with the general equity market, marks an excellent buying opportunity at current levels.

Next Catalyst : The next major catalyst for Microsoft will be this Thursday when it is due to release its second quarter results for the period ending 31/12/07. We expect the group to report another strong set of results with EPS rising to $0.46 from $0.26 previously, with revenue rising by 31% to $15.9bn. We also expected that Microsoft will issue another positive outlook for the rest of the year were it already expects EPS to rise by 21%.

Chart view : Stock has recently broken out of its long term trading range of $21-$31. If these gains can be held then there is considerable upside potential. More upside expected.

BMW

Price: €37.45
P/E: 8.5x
Div: 1.9%
Target: €33.00
Stop loss: €40.00

Fundamental view : Shares in **BMW** have been under pressure on concerns that a downturn in economic growth will have a significant impact on its earnings prospects given that it only operates in the luxury end of the car and motorcycle market. The company is also been hurt by high commodity price and exposure to the US dollar in which 25% of its revenues are generated. BMW reported a disappointing set of third quarter numbers back in November with pretax of €765m falling well short of analyst expectations of €890m, while its pretax margin of 5.5% also fell short of analyst expectations. The disappointing result was due in part to rising commodity costs, which increased the group's raw material costs by 22% and the weak US dollar.

Next Catalyst : On 18/03/03, BMW is due to report its full year results for 2007. We expect the company to report flat year on year EPS of €4.38 on revenue growth of 5% to €54.1bn. With flat EPS growth expected for 2007 and 2008, we feel that at 9x forward earnings, shares in BMW look expensive given the cyclicality of its business. Given that BMW is also in the luxury end of the auto market, any downturn in economic activity could have a significant effect on earnings.

Chart view : Recent price action has been negative with the stock breaking through the key support area of €40. Further weakness expected.

Pair trade: Long IAWS Short Kerry

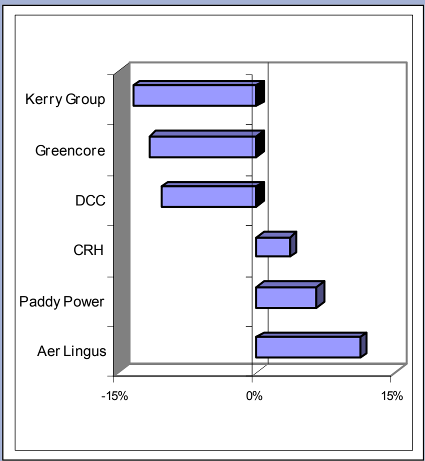
Trade recap: Last Monday we recommended a long position in **IAWS** versus a short position in **Kerry Group**. The trade moved into positive territory early in the week, and the stocks had converged over 10% by close Wednesday, IAWS sold off on Thursday, while Kerry recovered slightly leaving the position with 6% convergence for the week. Given the moves seen over the week and the technical outlook, we are recommending taking profits at current levels.

EARNINGS : **Monday** (Philips,TS), (Wolseley,TS) **Tues** (Land Sec,Q3), (WM Morrison,TS), (Apple,Q1), (B of A, Q4), (J&J,Q4), (Wachovia,Q4), **Wednesday** (BHP,TS), (Tullow,TS), (Conoco,Q4), (CIF,Q4), (Nokia,Q4), (Motorola,Q4) **Thursday** (N.Rock,Prelim), (Siemens,Q1), (AT&T,TS), (L&G,NB), (MSFT,Q2), **Friday** (CAT,Q4).

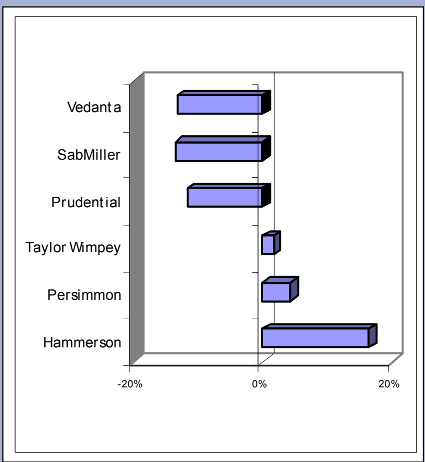
ECONOMIC: **Monday** (German PPI, UK Money Supply), **Tuesday** (Bank of Canada Interest Rate Decision, Richmond Fed), **Wednesday** (Euro-Zone PMI, BoE Minutes, UK GDP), **Thursday** (German IFO, US Jobless Claims, Existing Home Sales)

Last Weeks Best/ Worst Performers
11/01/08-18/01/08

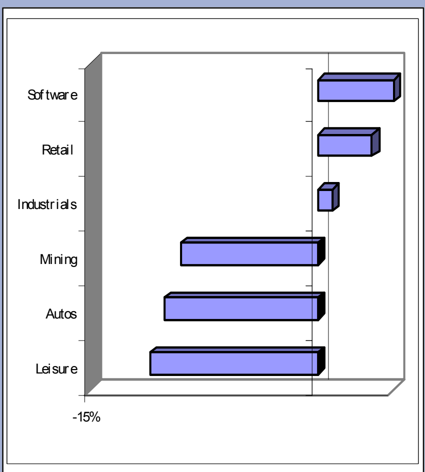
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	Relevant news
AIB	-0.2%	IBM signs a €45 million deal to overhaul A.I.B's banking systems.
Aviva	-8.2%	Bear Sterns downgrades Aviva to peer perform
BP	-7.7%	As crude oil continues to trade lower at $90 a barrel.
Coca Cola	-4.8%	Coca Cola added to Goldman conviction buy list.
CRH	3.4%	Slight rise in US builder confidence.
Hewlett Packard	-2.8%	After HP posted earnings that were lower than ex-pectations.
IAWS	-7.6%	Peer Premier Foods issued disappointing trading update
IL&P	-0.5%	Irish home registrations fall 62.3% in December.
Microsoft	-2.7%	Ahead of their second quarter results this week
Paddy Power	7.5%	Recent sell off represents good buying opportunity
Ryanair	-2.1%	Ryanair announce plans to spend €320m on a new base in Birmingham.
Vodafone	-4.2%	Voda phone announce Q3 earningds on the 31st of Jan and they expect comparable underlying trends to those reported in the first half.

DD Unrealised gain YTD	-6.31%	ISEQ YTD	-5.78%
DD Realised gain YTD	-10.55%	FTSE YTD	-8.60%
DD Total YTD	-16.86%	Average performance	-7.19%

Relative Performance -9.67%

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

What it says in the 'Sundays'

Company	Paper	Headline
IN&M	S. Independent	"Indo bags a real bargain"
C&C	S. Tribune	"Takeover unlikely"
Friends Provident	S. Times	"US equity firm sizes up Friends Provident"
Rio Tinto	S. Times	"BHP lines up 7 banks for swoop on Rio"
Payzone	S. Times	"Payzone duo appeal to backers"
IN&M	S. Business Post	"O'Reilly making friends."
C&C	S. Business Post	"C&C Euroland Hangover"

Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
Anglo Irish Bank	-11.62%	29/11/07	Group CEO David Drumm explained that the bank business model remains protected from the current banking crisis
United Drug	-1.27%	21/11/07	Group CEO Liam Fitzgerald told us to expect strong double digit revenue growth next year
Ryanair	-16.02%	20/11/07	Group COO Michael Cawley emphasized the strong further growth potential of the European aviation market.

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E
ISEQ	6534	-1.9%	-8.7%	3.0%	9.2
FTSE 100	5902	-4.8%	-10.7%	4.1%	11.3
DAX	7314	-5.2%	-11.9%	2.8%	12.0
Dow Jones	12099	-4.0%	-8.8%	2.5%	14.25
S&P 500	1325	-5.4%	-9.8%	2.2%	14.6
Nasdaq	2340	-4.1%	-11.8%	0.9%	23.8
EuroStoxx 50	3352	-5.3%	-11.0%	4.1%	10.6
Nikkei 225	13861	-1.8%	-12.9%	1.5%	15.2

Sector

Sector	Weekly move%	YTD move %
Leisure	-10.86	-17.41
Autos	-9.98	-20.46
Mining	-9.19	-10.69
Banks	-7.40	-10.45
Oil	-6.95	-8.94
Tobacco	-6.25	-5.87
Healthcare	-4.88	-0.02
Chemicals	-4.52	-5.34
Beverages	-4.09	-7.55
Personal Goods	-3.34	-14.34
Insurance	-2.1	-10.4
Telecommunications	-2.0	-2.3
Construction	-1.57	-11.58
Media	-1.21	-11.92
Utilities	-0.88	-2.09
Food Producers	-0.88	-4.81
Technology	-0.39	-10.46
Industrials	0.87	-2.81
Retailers	3.59	-17.56
Software	5.68	-2.92

Commodities

	Current	Change YTD
Crude Oil	$90.57	-5.6%
Gold spot	$883.17	+5.9%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.46	+0.0%	1.55
EUR-GBP	0.748	+1.5%	0.75
EUR-JPY	156.2	-4.2%	165.0

GDP Growth

	Current	Year End (est)
Ireland	5.00%	3.00%
Euro Zone	2.50%	2.00%
UK	3.10%	2.00%

Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.41%	3.75%
UK	5.50%	5.59%	5.00%
US	4.25%	3.89%	3.00%

Credit Market Summary

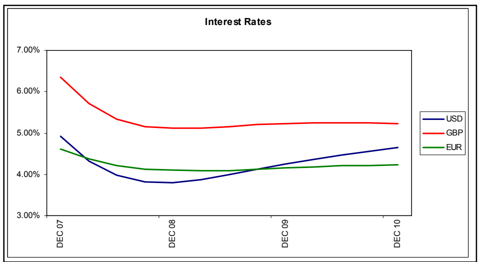
Credit markets were relatively subdued for much of the week until Thursday brought a litany of bad news with the high yield index widening 10% to 450bps at one point. Markets were hit by a weak Philly Fed index, Merrill Lynch's $14bn writedown for quarter four and the rating downgrade of AMBAC from AAA to AA. Focus now lies firmly on the monoline insurers, with spreads on AMBAC and MBIA now pricing in a 70% chance of default over the next 5 years, and an inverted spread curve which demonstrates that liquidity is the real issue, and only a recapitalisation of the monoline insurers can save the day.

Credit Sector Movements

Airlines: Mixed in the sector – Rolls Royce was one of the few stocks to have its spreads narrow this week, 4%, on news that it's cutting 6% of its workforce. BAA and British Airways were both wider, 10% and 6% respectively, after a BA 777 crash landed at Heathrow causing significant disruptions. Lufthansa spreads were wider by 7% and BAE spreads were wider by 7%.

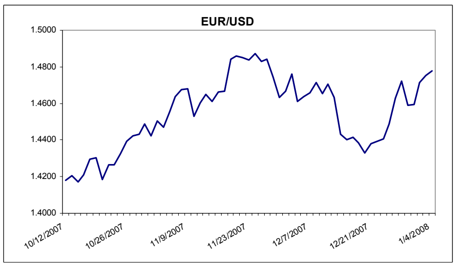
Media: Wider in the sector – Reuters spreads wider 31% on continuing speculation of a takeover by Thomson. EMI's default spreads jumped 23 basis points to a record 665 on news that the companies private equity financier is expected to bid for media company Chrysalis. BSkyB was 8% wider; Nielsen 10% wider, WPP 6%.

Interest Rate Outlook

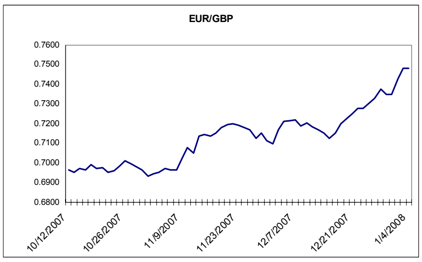


Safe have purchases continued last week on continued fears that the credit crunch may lead to a US recession. The yield on the US ten year treasury fell by 16 basis points to 3.63%, while the yield on the US two year treasury plummeted by 20 basis points to 2.35% on speculation that the US will be forced into substantial interest rates cuts.

Currency Comment



The € lost ground against the $ last week as comments from a number of ECB council members indicate that they are expecting lower than expected economic growth from the Euro-Zone economy. Key this week will be Wednesday when Jean Claude Trichet is due to speak and any deviation from his recent hawkish stance could see the € continue its decline.



The € fell versus the £ as expectations surfaced that the ECB may be forced to lower its interest rates sometime in the second half of the year as the global slowdown takes its toll on the Euro-Zone economy. Minutes from the BoE's January meeting will be released on Wednesday with expectations that its decision to leave interest rates on hold at 5.25% was a close call.

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