DOLMEN STOCKBROKERS

Traders Update

MONDAY 22ND OCTOBER 2007

Brief Market Comment

In the week that saw the 20th anniversary of 'Black Monday', equity markets were weighed down by a mixed set of corporate results out of the US and higher energy prices. The problem in particular was the banking sector with Bank of America the principal culprit recording a miss in third Q3 earnings of $0.24 cents as the effects of the sub-prime and an unexpected increase in bad debt provisions raised concerns about the health of the US economy. The advance of oil to a record high of $90 also added to the uncertain mood. With economic releases coming in broadly in-line, particularly the inflation data, expectations of a US rate cut have now turned full circle with the market now pricing in an 80% chance of a cut at the October 31st meeting compared to a 25% chance a week previously. Certainly, the US housing market decline is a growing concern given the knock-on effect on financial company earnings and the bigger fear is that this deterioration in the well being of the consumer seeps into the broader economy. The market believes this to be the case and it expects the Fed to come to the rescue again. Whether it will or not we will find out on Halloween. With the markets unsure whether this will be a trick or a treat, the coming week looks set to be an uncertain one.

TRADING IDEAS, EARNINGS & PREVIEWS

CRH

Current €25.00
P/E 07 9.7x
Div 07 2.5%
Target €40.00
BUY

Prior to the share price weakness of recent days, the last time that **CRH** closed under €27, at €26.93 on 26/09, the share price rose by 14% over the following 8 trading days, to close at €30.72 on 08/10. There are at least 4 potential catalysts over the next 3 months that should help drive a similar share price bounce. They are market acceptance of a distinction between US new residential construction and US commercial construction, earnings upgrades following the announcement of the Cemex deal by year end, a year end trading statement on 03/01/08, and market acceptance that CRH should at least be rated in line with its European peers. CRH is currently trading at 9.7x consensus current year eps of €2.58 and at 9.0x consensus 2008 eps of €2.80, a discount of c.20% to its European peers and a discount of c.40% to its US peers. Such discounts are excessive given the group's continued strong earnings growth prospects of c.15% this year, and c.10% in 2008. Only c.8% of CRH's group operating profit is exposed to US new housing.

IN&M

Current: €2.55
P/E 07 13.4x
Div 07 5.3%
Target: €3.35
BUY

Last month, **IN&M** announced eps of 8.03c for the 6 months ended 30/06/07, representing yoy 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. 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 5.3%, this provides an attractive 12 month total return from current levels.

AIB

Current: €16.45
PE 07 7.9x
Div 07 4.79%
Target €24.50
BUY

AIB's current sub €17 share price 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. Even though its US business, M&T Bank, in which the Irish bank owns a 24% shareholding, recently announced underlying eps, excluding an investment loss, of $1.92, for the 3 months ended 30/09/07, 1% below the consensus forecast of $1.94, and a year on year decrease of 2%, with M&T contributing c.8% of AIB group earnings, a 1% earnings miss does not have a material impact on group earnings. At a current share price of €16.50, AIB is trading at 8.0x consensus current year eps of €2.07, and is paying a current year dividend yield of c.4.8%.

SAP

Current Price: €37.30
Target: €48.00
P/E 07: 23x
Div 07: 1.30%
BUY

Last Thursday, SAP issued a strong set of 3Q results and also issued a positive outlook for the rest of the year. Operating profit rose by 9% to €601m, beating analyst expectations of €587m. The group also said it expects to reach the upper end of its software and related services revenue growth target of 12%-14% for 2007, while it reiterated its operating margin target to be in the range of 26%-27%. Shares in SAP have underperformed since it announced on 07/10/07 that it had agreed to buy Business Objects for €4.8bn in what marked a change in strategy for the group. SAP's strong 3Q report provides evidence that its underlying business remains strong and we recommend buying shares in the group on current weakness.

Microsoft

Current Price: $30.17
Target: $35.00
P/E 07 17.5x
Div 07 1.50%
BUY

On 25/10/07, Microsoft is due to report its fiscal 1Q 2008 results. We are expecting the company to report a 12% rise in EPS to $0.39 and a 16% increase in revenue to $12.5bn. The key point to look out for in the earnings release will be guidance for the full year 2008, where we believe the company may surprise to the upside following strong sales of Halo 3 and its Xbox games console. Last week, both Intel and Advanced Micro Devices reported consensus beating 3Q results boosted by increasing sales for PCs and notebooks, which should also provide a positive read across for Microsoft. Our price target of $35 is based on Microsoft trading in line with its peer group of 20x 2008 consensus EPS of $1.73.

Ladbrokes

Current Price: £4.06
Target: £4.80
P/E 08: 12.4x
Div 07: 3.5%
BUY

On Friday the 12/10/07 Rank group released a trading statement. It stated that despite an encouraging start to the year it had encountered a significant deterioration in revenue from its UK business. This was due to a loss of section 21 gaming terminals and the introduction of the smoking ban. As a result of this profit warning Ladbrokes share price has fallen 7%. We feel that this reaction is overdone as Ranks results have little read across for Ladbrokes. In addition to this we feel that this may be a good time to switch from Paddy Power into Ladbrokes. Although we like Paddy Power and see it as a good long term buy it is currently trading at 23 times final year earnings, compared to peer multiples of 12x earnings. It is also trading at a 5% premium to our 12 month price target of €26, while we see c.20% upside to Ladbrokes shares price from current levels.

Earnings Season : Q3 earnings season is now in full swing and of the 15 companies in the Dow Jones that have reported, 9 have beaten expectations, 4 missed consensus, while 2 reported results that were in line with expectations. A few trends appear to be emerging with the majority of tech and healthcare stocks outperforming. Of the tech stocks that have reported, Intel, IBM, Google and Yahoo posted strong results while healthcare stocks that are seen as a good defensive play in current turbulent markets have also posted consensus beating results with Johnson & Johnson, Pfizer and Eli Lilly all issuing strong 3Q reports. The financials continue to weigh on markets however, with Citigroup posting a 57% decline in earnings, while Bank of America and Wachovia Bank also disappointed and increased provisions for bad debts. This week sees another round of earnings releases with the key being; American Express and Apple on Monday, BP and BHP Billition on Tuesday, Merrill Lynch and GSK on Wednesday, Pulte Homes, Microsoft, Aviva, Royal Dutch Shell, Peugeot and Daimler on Thursday and Countrywide Financial, Volkswagen and Legal & General on Friday.

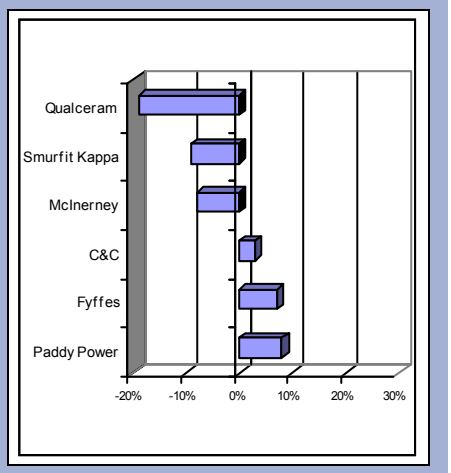
Week's Events

EARNINGS: Mon (Apple, Q3) (Merck, Q3) (Saint Gobain) (American Express, Q3) Tues (AT&T, Q3) (Whirlpool, Q3) (Prudential, Q3) (BP, Q3) (BHP, TS) (Debenhams, FY) Wed (GSK, Q3) (Anheuser Busch, Q3) (Boeing, Q3) (Merrill Lynch, Q3) Thur (Bristol Myers, Q3) (Dow Chemical, Q3) (Microsoft, Q3) (Motorola, Q3) (Aviva, Q3) (Reuters, Q3) (Royal Dutch Shell, Q3) Fri (Legal & General, Q3)

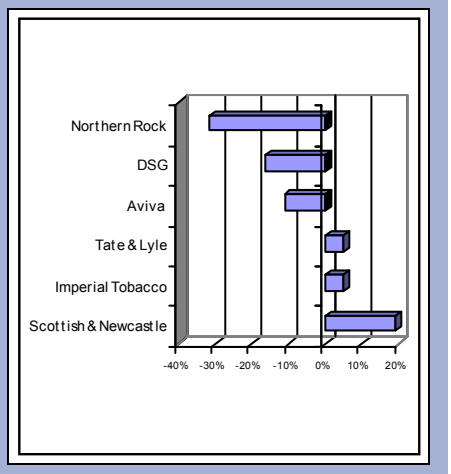
ECONOMIC DATA: Tuesday (Richmond Fed), Wednesday (Euro-Zone PMI, US Existing Home Sales), Thursday (German Import Prices, German IFO Index, US Durable Goods, Jobless Claims, US New Homes) Fri (Michigan confidence)

Last Weeks Best/ Worst Performers
15/10/07-19/10/07

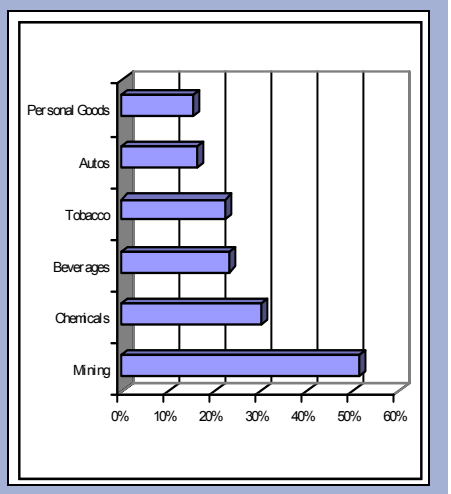
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	DD Return*	Relevant news
AIB	-1.5%	-22.9%	M&T bank announced Q3 results with eps of $1.92 c.1% below market consensus forecast of $1.94
Aviva	-11.1%	-9.1%	Ahead of Q3 results on the 25th of October
BP	-1.3%	+13.5%	Ahead of Q3 results on the 23rd of October
CRH	-5.9%	-14.2%	Following further bad news out of the US housing market
Greencore	+0.2%	+0.1%	Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations
GSK	+0.0%	-3.5%	Ahead of Q3 results on Wednesday
IL&P	-7.0%	-13.5%	Continued weakness due to its large exposure to the Irish housing market
Ladbrokes	-2.4%	+4.3%	Received competition approval to sell its pools business in the UK
RBS	-6.4%	-16.5%	Its offer for ABN has gone unconditional
Ryanair	+0.2%	+4.8%	Ryanair agreed a 4-year pay deal with its Dublin pilots
SAP	-3.6%	-9.6%	Reported Q3 results that came in ahead of expectations
Vodafone	-2.2%	+29.1%	Was subject to further positive brokers comments during the week

DD Unrealised gain YTD	-2.53%	ISEQ YTD	-16.89%
DD Realised gain YTD	-2.78%	FTSE YTD	6.77%
DD Total YTD	-5.32%	Average performance	-5.06%
Relative Performance	-0.26%		

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

What it says in the 'Sundays'

Company	Paper	Headline
Aer Lingus	**Sunday Business Post**	"Fewer than 3% to claim free Aer Lingus shares"
Irish Nationwide	**Sunday Business Post**	"New owner may break up Irish Nationwide BS"
Unilever	**Sunday Times**	"Steady hand in a risky market "
Iona	**Sunday Times**	"Iona leads tech turnaround"
Aviva	**Sunday Times**	"Aviva ahead"
IL&P	**Sunday Independent**	"IL&P big winner on compulsory pensions"
Aer Lingus	**Sunday Tribune**	"Claims government broke the law over Aer Lingus"

Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
IAWS	-20.5%	28/09/07	CEO Owen Cillian said that the company will be force to put through food price increases
Irish Life	-28.9%	11/09/07	Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins
FBD	-33.9%	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	7,791	-2.9%	-17.2%	2.5%	11.92
FTSE 100	6,528	-3.0%	4.9%	3.6%	13.27
DAX INDEX	7,884	-1.9%	19.6%	2.5%	14.02
DOW JONES	13,695	-2.9%	9.8%	2.1%	16.63
S&P 500	1,520	-2.7%	7.1%	1.8%	17.80
NASDAQ	2,762	-1.7%	14.2%	0.7%	39.82
EUROSTOXX 50	3,820	-2.8%	3.4%	3.5%	12.58
NIKKEI 225	16,814	-3.0%	-2.4%	1.2%	34.36

Sector

	Weekly move%	YTD move %
Mining	-5.1	+51.4
Chemicals	+1.3	+30.1
Beverages	+5.2	+23.1
Tobacco	+3.3	+22.4
Autos	-4.0	+16.5
Personal Goods	+2.3	+15.7
Technology	-4.2	+14.0
Telecoms	-1.0	+12.3
Oil & Gas	+0.4	+10.3
Construction	-3.1	+5.81
Utilities	-0.7	+5.28
Media	-4.0	+3.84
Leisure Goods	-8.8	+2.66
General Industrials	-1.6	+0.86
Food Producers	-0.1	-0.8
Insurance	-1.5	-3.9
Pharmaceuticals	-2.8	-5.04
Software	-3.8	-9.14
Banks	-5.7	-14.4
General Retailers	-7.5	-15.7

Commodities

	Current	Change YTD
Crude Oil	$88.5	+33.0%
Gold spot	$773.0	+19.6%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.426	+7.4%	1.35
EUR-GBP	0.696	+3.3%	0.665
EUR-JPY	164.2	+4.1%	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%

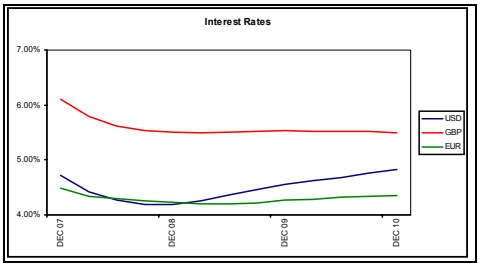
Credit Market Summary

High yield spreads ended the week 60bps (18%) wider at 330bps. This follows disappointing earnings results in combination with resurfacing liquidity fears. Spreads widened 5bps (14%) in investment grade names, while financial spreads continue to demonstrate where the markets believe the risk remains, widening 13bps (40%) last week. Spreads are not expected to reach the levels seen in late July (505bps high yield) as this was an overshoot, however levels are expected to remain elevated between 350bps and 400bps. .

Credit Sector Movements

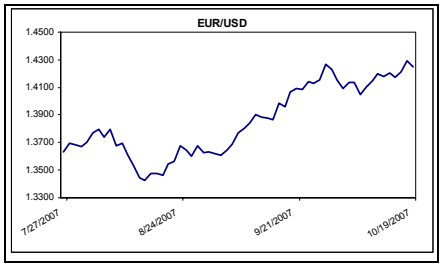
Financials: Financials continue to be the main culprits for earnings disappointment with 35 of the 92 financials in the S & P 500 having reported earnings so far, 51% have beaten expectations and 46% missed. Unsurprisingly within the sector the investment bank and brokerage houses were the largest contributors to the earnings decline. Irish banks all saw spreads widen last week, AIB +8bps (19%) to 41bps; BOI +7bps (17.5%) to 40bps; Anglo +5bps (7%) to 63bps; and IPM +6bps (12%) to 48bps.

Interest Rate Outlook

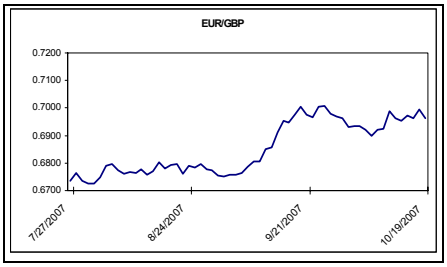


Government bonds across the board rallied last week as safe have buying returned to the market. The yield on the US 10-year treasury plunged by 28 basis points to 4.40%, while the yield on the 10-year German bund also declined by 22 basis points to 4.20%.

Currency Comment



Last week saw the € continue to strengthen against the $ closing above the $1.43 level as expectations increase that the Fed will cut interest rates by a further 25 basis points on 31/10/07. The $ could weaken further this week if further weak data in the form of US housing and durable goods were to materialise.



The € traded in a tight range with £ last week closing at £0.697 despite better than expected GDP data out of the UK. The key focus this week will be on Thursday with German IFO data set for release and a soft number here could see € weaken.

Disclosures
This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes only to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor.

Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgement as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuers (s) in advance of publication.

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. Investors may not necessarily recoup the full value of their original investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

Dolmen Securities is a Member Firm of the London Stock Exchange, and is authorised by the Financial Regulator under the Investment Intermediaries Act 1995. Dolmen Stockbrokers is a Member Firm of The Irish Stock Exchange, The London Stock Exchange, and is authorised by the Financial Regulator under the Stock Exchange Act 1995.

Conflicts of Interest & Share Ownership Policy
Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments/ derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in issuers they publish research, views and recommendations on and accordingly analysts involved in the production of this report may own stocks in a company covered in it. Any own account staff trading is undertaken in strict compliance with Dolmen's own account internal rules and therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification
Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. Stuart Draper, Carl Bourke and Stephen Taylor are responsible for the production of this report. Stuart Draper is Head of Research and Carl Bourke and Stephen Taylor are equity analysts.

For US Persons Only
This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.

DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland. Tel : +353 1 633 3800/1890 400 300 E-mail: info@dsl.ie
45 South Mall, Cork, Ireland Tel : +353 21 422 2122 E-mail: cork@dsl.ie
Theatre Court, Mallow St, Limerick, Ireland. Tel : +353 61 436 500 E-mail: Limerick@dsl.ie