

Traders Update

MONDAY 23RD JULY 2007



Brief Market Comment

Equity markets experienced an extremely difficult time last week. After a positive start with the Dow breaking the 14,000 level for the first time and some positive earnings numbers, particularly from the financials and Dow component Honeywell, it would be news from a financial house which precipitated the end of week declines. News from Bear Stearns that its failed hedge fund was essentially worthless, along with higher sub-prime provisioning at some US banks and comments by Fed Chairman Bernanke that the sub-prime issue may spread into the broader market, sparked a typical flight to quality with bonds benefiting at the expense of equities. Also adding to the weakness was a big earnings miss from manufacturing equipment maker Caterpillar due to the weak US residential construction market. With little economic data of note this week, US GDP being the main one on Friday, the focus will be sub-prime and earnings. While earnings will undoubtedly be important for the markets, the sub-prime issue will dominate, meaning equity markets face a potentially difficult week.

Current Trading Ideas

BAE Systems

Current: £4.28
Target: £4.50
P/E 07 16.10
Div Yield 07 2.87%
Next Event 09/08/07
Move on week +4.14%

BUY

Last week BAE's \$4.1bn attempted takeover of Armor Holdings received approval after it cleared the US antitrust process. 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. 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 have 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. The company also announces H1 earnings on August 9 and is expected to report eps 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.

IAWS

Current: €15.75
Target: €20.00
P/E 07 17.12
Div Yield 07 0.96%
Next Event 26/09/07
Move on week +0.77%

BUY

IAWS management has a good track record in acquiring and integrating acquisitions (Cuisine De France, La Brea and Otis Spunkmeyer). Therefore the \$450m recently raised in a private placement with US and UK institutions, combined with the €265m the group received from the recent floatation of Origin Enterprises gives its management the funds needed with which to invest in further acquisitions or to increase organic expansion. IAWS still holds a c.71% stake in Origin, which works out at €2.83 per share based on our current price target for Origin of €3.77 per share. Given that over 50% of group earnings are now generated in the US, and that the group's US peers all trade at multiples of c.20x forward earnings, IAWS deserves to trade at a multiple of at least 18x 2008 estimated earnings of €0.98, which generates a value of €17.64 per share. Combining this value with the group's holding in Origin provides the basis for our current 12-month share price target of €20.

GSK

Current: £12.78
Target: £14.50
P/E 07 12.91
Div Yield 07 3.99%
Next Event 25/07/07
Move on week -0.85%

BUY

This Wednesday, **25th July, GlaxoSmithKline (GSK)** will announce its results for the 3 months ended 30/06/07. The consensus forecast is for earnings per share of 23.3p, a 1% increase on the 23p of Q2 2007, held back by lower sales of its Type-2 diabetes drug, Avandia. In May, an article published in the New England Journal of Medicine suggested that the drug increases the risk of heart attacks. However, the FDA has stated that other data provides contradictory evidence concerning the risks of Avandia, and as a result the clinical significance of the reported increased risk has not yet been confirmed. In this regard, a crucial meeting of the FDA this day week, 30th July, to discuss Avandia's safety, could act as a significant positive catalyst for the GSK share price. Given that GSK is currently trading at 12.8x consensus 2007 eps of 99p, a 25% discount to the current EU pharma sector average of 17x, the current **sub £13** share price would appear to represent an attractive entry level for medium term investors, with the shares also paying a current year dividend yield of 4%.

AIB

Current: €20.05
Target: €24.50
P/E 07 9.83
Div Yield 07 3.95%
Next Event 01/08/07
Move on week -0.84%

Buy

AIB's US business, M&T Bank, recently announced eps of \$1.95 for the 3 months ended 30/06/07, which was 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 the **1st August**.

RBS

Current: £6.10
Target: £7.20
P/E 07 8.55
Div Yield 07 5.50%
Next Event 03/08/07
Move on week -4.69%

Buy

In conjunction with the formal launch of its latest takeover bid for ABN AMRO, **RBS** has confirmed that its underlying profit before tax for the 6 months ended 30/06/07 will be "at least £5 bn", which is the average analyst forecast and which would represent 9% year on year growth. Among the drivers of this growth, RBS mentions "continued strong credit metrics". This is important reassurance ahead of the full announcement of the group's interim results on Friday week, **3rd August**, given the ongoing worries over exposures to the US mortgage market. However, RBS' US mortgage exposure is 100% prime and 99% secured. This week, Northern Rock starts the UK bank interim results' season on Wednesday, with Bradford & Bingley due to report on Thursday and Alliance & Leicester on Friday. The consensus forecasts are for profit before tax of £326m, £184m and £288m respectively, representing year on year increases of 19%, 12% and 7%. RBS currently trades at 8.5x consensus 2007 eps of 72p and pays a current year dividend yield of 5.6% :

This Week's Calendar Events

EARNINGS: TUES (Vodafone, AGM) (BP, Q2) (GSK, Q2) (Sterling Energy, AGM) (BHP, Trading Update) WED (Apple, Q2) (Boeing, Q2) (Shell, Q2) THURS (Rolls-Royce, H1) (Icon, Q2) (Elan, Q2) (Legal and General, Interim) (BT, Q1) FRI (BskyB, H1) (Alliance and Leicester, H1)

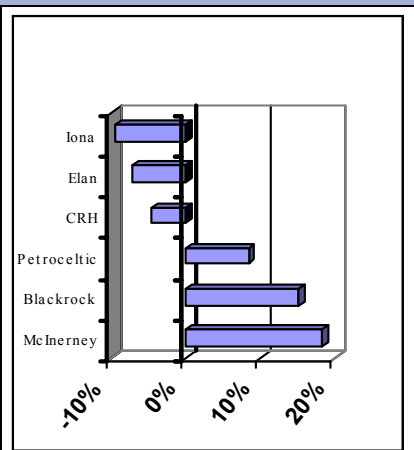
ECONOMIC DATA: Tuesday (German Import Prices, Euro-Zone PMI, US Richmond Manufacturing), Wednesday (US Existing Home Sales, Fed Beige Book), Thursday (UK Nationwide House Prices, Euro-Zone M3, German IFO, US Durable Goods, Jobless Claims, New Home Sales), Friday (US GDP, Core PCE, Michigan Confidence)

DOLMEN STOCKBROKERS Traders Update

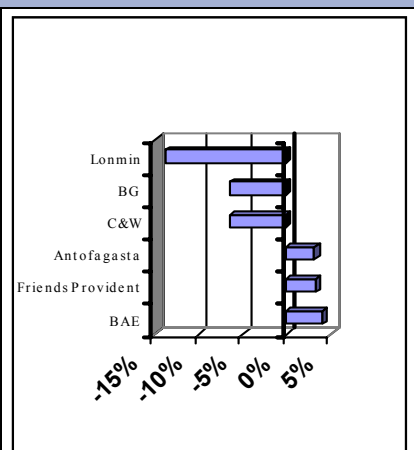
Last Weeks Best/ Worst Performers

16/07/07-23/07/07

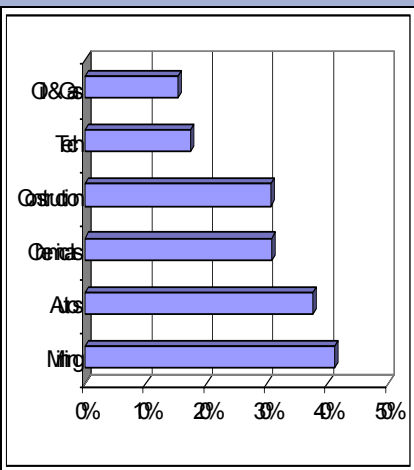
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	20.05	-0.84%	-11.11%	Bank of Ireland reiterated its full year earnings guidance of low double digit percentage growth
Aviva	7.40	-3.02%	-7.07%	Peers Resolution and Friends Provident announced they are in talks to merge
BP	6.00	-2.20%	9.13%	Ahead of the group's 2Q results due 24th July
B.Land	13.56	-1.81%	-18.81%	Peer Great Portland said it expects rents to rise in Central London
C&C	8.74	2.22%	-17.40%	A number of US peers announced disappointing results last week
CRH	34.90	-4.67%	13.47%	On continuing concerns of a slowing US residential market
GNC	5.50	4.76%	21.58%	Greencore is subject to ongoing takeover speculation
GSK	12.78	-0.85%	-2.73%	Glaxo's Cervical cancer vaccine recommended for European use
LAD	4.37	-2.51%	8.47%	G. Brown all but ruled out the building of a super casino in Manchester, a decision on the 16 smaller casinos will be made in September
RBS	6.10	-4.69%	-4.01%	Barclays raised its offer for ABN Amro to €67.5m
Ryanair	4.97	-1.19%	-6.67%	Ahead of the group's 1Q results due on the 31st July 2007
VOD	1.61	-1.35%	18.64%	Vodafone raised subscribers by 4.1% to 232m and head of analyst expectations of 230m

DD Unrealised gain YTD	0.30%	ISEQ YTD	-4.21%
DD Realised gain YTD	2.71%	FTSE YTD	6.64%
DD Total YTD	3.01%	Average performance	1.22%
Relative performance YTD	1.79%		

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

What it says in the 'Sundays'

- "NTR's great expectations" **NTR - Sunday Business Post**
- "Carroll on board for ICG battle" **ICG - Sunday Times**
- "Aer Lingus to fly transatlantic from Belfast" **Aer Lingus - Sunday Times**
- "Beaten Emap bidders circle for spoils" **Emap - Sunday Times**
- "Painful lesson for e-learning company" **ThirdForce - Sunday Independent**
- "Denies Continental talks over Heathrow slots" **Aer Lingus- Sunday Tribune**
- "Pharma veteran to head Diageo" **Diageo- Sunday Tribune**
- "Emerging markets offset European sales" **Vodafone- Sunday Tribune**

Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Metro Baltic	-4.26%	13/07/2007	James Kenny re-iterated that the company has now fully invested 95% of the funds raised. He also stated that going forward the company will concentrate on St. Petersburg.
Bank of Ireland	-15.43%	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	33.45%	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	9019	-1.63%	-3.91%	2.00%	14.51
FTSE 100	6598	-1.30%	6.26%	3.59%	13.94
DAX	7891	-2.80%	19.44%	2.48%	14.26
DJ INDUS. AVG	13851	-0.40%	11.14%	2.06%	18.38
S&P 500	1534	-1.19%	8.17%	1.77%	17.86
NASDAQ	2688	-0.72%	11.27%	0.67%	40.01
DJ STOXX 50	3920	-2.04%	5.95%	3.41%	13.61

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	8.8
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	\$75.46	15.03%
Gold Spot	\$683.50	7.29%

Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.383	4.52%	1.35
EUR-GBP	0.672	-0.25%	0.665
EUR-JPY	167.24	6.09%	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%	4.00%
UK	5.75%	6.00%
US	5.25%	5.25%

Credit Market Summary

Another very volatile week in the credit markets, consumed by sub-prime concerns, the credit indices closed the week 7% wider in the investments grade index and 11% wider in the high yield index. Sub-prime concerns continue to dominate, as we watch for a spill over into the equity markets and the effect the sub-prime valuations may have on hedge funds. Unless the sub-prime worries dissipate immediately (highly unlikely) we can only expect spreads to continue widening.

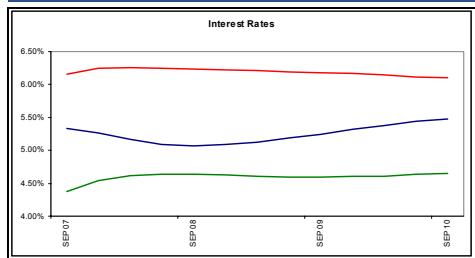
Credit Sector Movements for week ended 20/07/07

Automotive: Quiet in the sector for the most part – DCX spreads widened 4bps this week following reports that the banks structuring the LBO debt required to separate Chrysler from DCX has been re-priced 50bps higher than originally planned. Other European automakers were unchanged.

Retail: Boots was the biggest mover again this week, widening 55bps, to over 400bps now to buy protection against default, as investors, re-pricing risk, are demanding 50bps higher return on the highly leveraged loans. The sector was also alive with LBO rumours following the bid for Sainsbury's, which prompted similar speculation for Morrisons (+13bps).

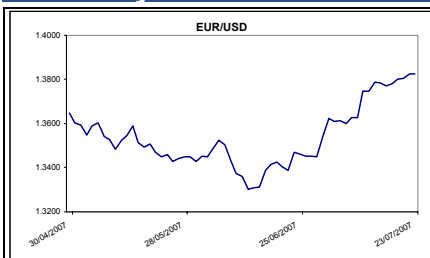
Media: Mixed in the sector – the only mover was EMI, who saw spreads widen despite the apparent withdrawal of Warner Music from the bidding (indicating the private equity bid is overvalued). However investors may not be convinced given that the Warner/EMI dance has been going on for 7 years now. Other names in the sector were unchanged.

Interest Rate Outlook

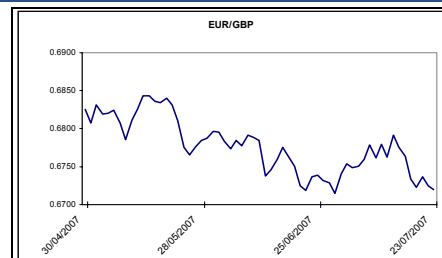


The 10-Year US Treasury Yield dipped below 5% to a six week low of 4.94% as investors continue safe haven purchases of government bonds on growing concerns in the US subprime mortgage market. The 10-year bund yield also shed 18 basis points to 4.44%.

Currency Comment



The Euro remains above the \$1.38 mark as subprime concerns continue to weigh on the dollar and Fed Chief Ben Bernanke commented that losses could hit \$100bn. The dollar could rebound this week however with strong US GDP data for 2Q forecasted and due for release on Friday.



The Pound strengthened against the Euro last week by almost 1% boosted by strong GDP and inflation data. The Euro could regain some ground this week with another set of strong M3 Money Supply data due for release on Thursday.



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