



THURSDAY 24th JANUARY 2008

**DAILY COMPANY NOTE — Review of Short Trading Ideas** See page 2 for full details

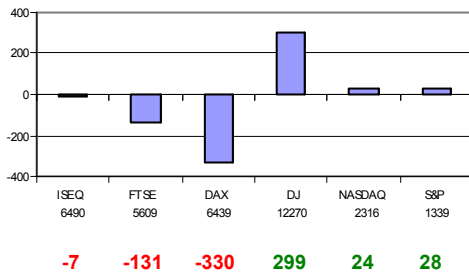
**Daily Market Comment**

**Tuesday's Summary :** The ISEQ finished in negative territory yesterday, albeit down only 7 points. In another day of volatile trading, stocks were broadly lower in early trading before rallying into the afternoon. PaddyPower shined yesterday, as rumours circulated that peer William Hill could be the subject of a takeover bid, as well as perception that the sector was oversold. Ryanair performed well, up 6%, closing above the €4 mark on heavy volumes. In the US the Dow experienced an incredible turnaround finishing up almost 300 points after being down over 300 points at one point.

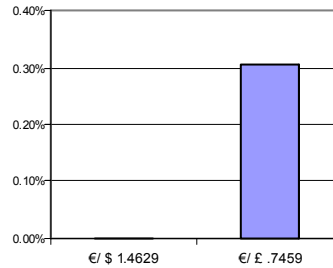
**Overnight News :** Asian markets rose for a second day in a row, following on Wall Street's stunning comeback overnight. Asian markets have recovered more of their losses from their steep slide Monday and Tuesday that was driven by fears of a recession in the U.S., a vital export market. Yesterday's 631.86 point turnaround in the Dow was the largest for a single day in more than five years.

**Breaking News :** Soc Gen has said it will seek €5.5bn in new capital after an incidence of trading fraud was discovered. A SocGen trader had initiated unauthorised positions which developed into a €4.9bn loss. The bank also intends to take a €2.05bn loss relating to credit related writedowns. BNP Paribas have signalled that they have no issues that would justify a market warning, and that they will release their accounts on 20<sup>th</sup> February. Ryanair have announced an increase in fees for baggage check-in and airport check-in in a bid to encourage passengers to avail of their free on-line check-in service. The American Institute of Architects December survey indicates a view that US non-residential construction can remain positive in 2008.

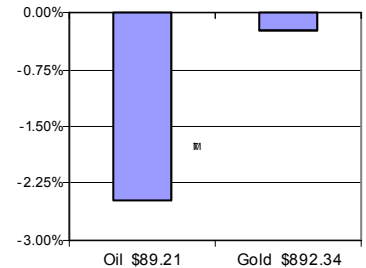
**Equity Index's change on day**



**Currency daily % change**



**Oil/Gold daily % change**



**Paper Headlines**

- "Apple shares hit by weak forecast" – **Apple** -(Irish Times)
- "Tullow oil production increased by 13% last year" – **Tullow**-(Irish Times)
- "ECB insists it has no rate cut in mind. - (Irish Examiner)
- "Central Banks have lost control, says billionaire financier George Soros" - (Irish Examiner)
- "Buffet move boosts Swiss Re" – **Swiss Reinsurance** - (Financial Times)

**Market Themes and Movers**

**Euro opens strong :** European shares moved sharply higher this morning, taking their lead from strong gains recorded in Asian and U.S. equity markets on hopes that ailing bond insurers will be bailed out. In particular, shares of bond insurers surged in the U.S. on Wednesday, adding fuel to a major late-session rally in the U.S. stock market, on hopes that a bailout package orchestrated by regulators will rescue the ailing industry. European firms that have exposure to this area include French bank BNP Paribas up 7% in early Paris trading. So far rumours of a €40bn writedown at a French bank have proved unfounded

**Soc Gen's rogue trader :** Societe Generale said Thursday that a single trader was responsible for a massive 4.9 billion euro (7.15 billion dollar) fraud at the French banking giant. "I have the duty to inform you that the management of Societe Generale has discovered an internal fraud of a considerable scope, carried out by a member of staff in its financing and investment division," chairman Daniel Bouton said in a statement released on the bank's web site. Societe General announced separately that the fraud was worth 4.9 billion euros and that it had also lost about two billion euros because of the US subprime crisis. The bank are attempting to raise €5.5bn in additional capital.

**Dolmen Squawk Box**

This day five years ago, the ISEQ tracked overseas markets lower, as fears over a looming war in Iraq pushed stock prices lower.



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# Review of Short Trading Ideas

Analyst : Stephen Taylor

Last week we initiated coverage on three short trading ideas given the current level of market volatility in equity markets. The companies that we selected are cyclical in nature and have a significant exposure to a sharply slowing US economy and weakening US dollar. As a result of the steep falls in the share prices of **BMW and EADS** of 13% and 16% we are advising investors to **take profits on trades in both of these names** as we move to neutral on the companies for the time being, **while we are still recommending investors short shares in Adecco**, which have fallen by 4% since our short call. As with all short trades we recommend that investors put a guaranteed stop on the trade in case of a potential takeover of the company.

## BMW

Price : €34.71  
P/E 08 : 8x

### Overview:

BMW manufactures and sells luxury cars and motorcycles worldwide. The group produces everything from convertibles to luxury sedans.

**Fundamental view** : Shares in BMW have fallen by 18% year to date and by 13% since we recommended shorting shares in the company last week. As a result of sharp fall in BMW's share price over that period we are advising investors to realise their profits by closing their short positions in the company. We still remain cautious on BMW in the short to medium term, however, we think the shares look over sold at the moment. We will continue to monitor BMW's share price and may look to short again on any meaningful strength.

**Next catalyst** : On 18/03/08, BMW is due to report its fiscal full year results for 2007. We expect the group to report flat year on year EPS of €4.38, with revenue expected to rise by 5% to €54.1bn. With flat EPS growth estimated for 2007 and 2008 we feel that a multiple of 8x represents a fair level for the company. Any continuing downturn in economic activity will continue to have a significant impact on the profitability of the group, given that it operates primarily in the luxury goods end of the auto market.

**Chart view**: Having broken key support in the €40 area the stock has broken down in recent sessions. Indicators suggest that the stock is oversold in the short term. However, any bounce is likely to be short lived and caution is required. Next support area is at €32.

## EADS

Price : 16.05  
P/E 08 : 10.5x

### Overview:

EADS manufactures airplanes and military equipment. The group produces commercial aircraft including Airbus and military fighter aircraft.

**Fundamental view** : EADS' share price has fallen by 16% since we recommended shorting shares in the group. We are now recommending investors close their short position as we believe the stock is now over sold despite its continuing production problems and US dollar exposure (with 20% of its US dollar revenue base un-hedged). We will continue to monitor EADS' share price and may look to short again on any meaningful rise in the group's share price.

**Next catalyst** : EADS is due to report its annual results on March 11th. We expect the group to report a loss per share of €0.13 on flat revenue of \$39.2bn. The group now trades at a 15% discount to its peer group, a discount that we continue to feel is warranted given its production problems and US dollar exposure.

**Chart view**: Stock has recently broken out of its longer term trading range of €20 to €25 and unless it can recapture the €20 area the longer term outlook will remain negative. A short term bounce is possible given the size of the recent down move but a break of €17.70 is needed to break the short term downtrend and allow the stock to stabilize.

## Adecco

Price : CHF51.65  
P/E 08 : 9x  
Target : CHF47  
Stop : CHF54.50

### Overview:

The Group's principal activity is the supply of temporary and permanent staff through employment agencies. Adecco operates mainly in Europe and North America.

**Fundamental view** : Shares in Adecco are now trading 14% lower for the year, 4% lower since our sell recommendation was initiated at a price of CHF53.85. The stock traded down to CHF49.8 at one point on Monday 21<sup>st</sup> on news of broker price target cuts. However the stock rebounded 4.3% the following day despite ratings cuts to Adecco and one of its peers Randstad. We believe the short term outlook for the European and US staffing market remains bleak, particularly in the temporary staffing sub-sector, and that the consensus for 2008 earnings will be reduced. We are maintaining our short term price target of CHF47, with the view that profits should be taken if the stock finds support around the CHF48 mark. We are reducing the stop loss from CHF58.50 to CHF54.50 taking advantage of the decline that has occurred to reduce downside to the trade.

**Next Catalyst**: The next catalyst for the stock is when Manpower, a US based competitor of Adecco in the temporary staffing sector releases its 2007 Q4 earnings in the next two weeks (Manpower has yet to confirm release date). Manpower trades in line with Adecco at c.9x 2008 forecasted earnings, and has a similar geographical profile. On 04/03/08, Adecco is due to report its fourth quarter earnings for 2007 and we expect the group to report a weaker set of results with revenue growth falling short of the company's target of 7-9% per year. A negative outlook by the management in this report has the potential to cause a significant decline in the company's share price.

**Chart view**: Chart outlook is negative with series of bearish breakdowns. Longer term support has been broken and more downside can be expected. A close above €57.50 is needed to break the medium term downtrend and make chart sentiment more positive.





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