DOLMEN STOCKBROKERS

Traders Update

MARKET COMMENT MONDAY 25TH FEBRUARY 2008

The worst possible scenario for equity markets, and indeed central bankers around the world, is slowly but surely materialising as the wide range of economic statistics released last week showed. Growth across the major economies is clearly slowing with a weak Philly Fed reading the most prominent example of this, but also crucially the Fed cut its growth forecast for the US economy to between 1.3% and 2%, down from 1.8% to 2.3% previously, while the European commission trimmed Euro-zone growth forecasts to 1.8% for 2008, down from 2.2% previously. While these downgrades are significant in their own right, the fact that inflation expections are moving in the opposite direction clearly is unhelpful. The difficult for equity markets with this scenario is that expectations of further rate cuts become more uncertain and this was reflected in the price action last week as after a strong rally early in the week as good results from Barclays and AIB helped soothe investors nerves, the deteriorating economic outlook saw the majoritory of these gains being unwound.

TRADING IDEAS, EARNINGS & PREVIEWS

AIB

Price: €13.76
P/E: 6.6x
Div: 6.24%
Target: €16.50

BUY

Fundamental view : Last week, **AIB** announced its results for the year ended 31/12/07. Underlying profit before tax and eps of €2.377 bn and 205.9c respectively were in line with our forecasts of €2.38 bn and 206c, and were year on year increases of 15% and 13%. The group confidently guided "low single growth in 2008 adjusted EPS", implying that our current 2008 eps forecast of €2.08 remains on track. There was no material change in the asset write-downs disclosed from the total of €125m (ex $25m for M&T) guided at the time of the December trading statement.

Next catalyst : At the analyst meeting, further asset write-downs totalling €64m were also announced, based on bid prices as at 15/02/08, split €29.7m : €34.3m between the trading account and the assets for sale write-downs, and already factored into the new 2008 earnings guidance. However, with such exposures minor by comparison with European peers, largely once-off in nature, and potentially reversing within 12 months, with the shares currently trading at 6.6x 2008 eps of €2.08, we would recommend BUYING the shares at current levels. A final dividend of 51.2c per share, on its own representing a yield of c.3.7% on the current share price, will go ex this Wednesday, 27th February

Chart view: Continues to trade in its 3½ month €13-€16 range and any weakness towards the €13 area should be considered a buying opportunity

IAWS

Price: €12.14
P/E: 12.3x
Div: 1.40%
Target: €15

BUY

Fundamental view : The share price of **IAWS** has fallen by c.19% since the start of 2008, largely as a result of fears over the input cost inflation and over the adverse impact of the weaker US dollar on the translation of its US dollar earnings. However, the group's Q1 update confirmed that price increases to recover input cost inflation are being achieved, which are also having no impact on volume growth. Its US dollar exposure represents a purely translational rather than an economic earnings effect with respect to c.40% of group earnings, implying that a 10% weakening of the US dollar reduces group eps by c.4%.

Next catalyst : As a result, we still expect IAWS (ex Origin) to generate an eps of €0.99 for the year ending 31/07/08, which at a conservative multiple of 12x, a discount of c.20% to its European peers, generates a fair value for its food business of €11.88 per share. When combined with the value of its c.71% stake in Origin, which we continue to value at €3.13 per share, this generates a total value of €15.01, providing the basis for our current 12 month IAWS share price target of €15 (24% upside). Both Kerry Group's full year results' announcement tomorrow, 26th February, and IAWS' H1 results' announcement on 10th March could act as near term positive catalysts for the IAWS share price.

Chart view: A close above €13.00 is needed to break downtrend. Stock looks set to struggle with next strong support at €11 area.

Pairs Trade

Long Grafton
Price: €5.26
P/E: 7.2x
Div: 4.18%

Short Kingspan
Price: €9.05
P/E: 8x
Div: 2.68%

Fundamental view : Within the next two weeks, both **Grafton Group** (€5.26) and **Kingspan** (€9.05) will announce full year results for 2007. As a result of the significantly larger portion of Grafton's earnings generated from recurring RMI (repair, maintenance and improvement) sources, as opposed to new build projects, the potential earnings downgrades for Kingspan in the aftermath of its results' annoouncement could be significantly greater. This is also because of the more conservative 2008 earnings guidance already issued by Grafton last month, of a 2008 eps range of between 73c and 76c, versus an expected 2007 eps of 85c.

Next Catalyst : **Kingspan,** on the other hand, has still not revised its December 18th trading statement guidance of "mid single digit" earnings growth on the consensus 2007 eps of €1.08. Both Kingspan and Grafton will announce their full year 2007 results on 3rd March and 10th March respectively, which could act as catalysts to drive some significant short term relative outperformance from Grafton. As a result, we would recommend a pairs trade over the next two weeks within the Irish building materials' sector through a **LONG** position in Grafton and a **SHORT** position in Kingspan at current prices.

Chart view: Grafton has broken out of medium-term downtrend. Well supported at €5.18 and €4.50. Kingspan's short-term support base has been formed at €8.40 but long term problems are not over. Caution required.

Vodafone

Price: £1.62
P/E: **13x**
Div : 4.5%
Target: £2

BUY

Fundamental view : Shares in **Vodafone** declined by 6% last week on concern that a price war in the US will hit earnings. Vodafone has a 45% stake in Verizon Wireless (estimated to be worth between $45bn-$55bn) US in which Vodafone generates c. 20% of operating profit taken through the income statement as an associate earning. We do not feel that a price war in the US will negatively impact Vodafone earnings as its underlying business in Europe remains strong and its key earnings driver now is its emerging market expansion in particular in India where it recently bought a controlling stake in Hutchison Essar

Next Catalyst: The next major catalyst for Vodafone will be on 27/05/08 when the group is due to report its full-year results, while two of the company's closest peers Telefonica and Deutsche Telekom are due to report full-year results on 28/02/08. At 13x earnings and providing a dividend yield of c. 4.5% we feel that the recent weakness in the group's share price represents an excellent buying opportunity

Chart view: Stock is sitting on key support at 162 and is looking vulnerable. Next support is at 154. The 170 area is key and a sustained move above here is needed to restore chart confidence.

Oracle

Price: $18.90
P/E: 15x
Div : 0%
Target: $26

BUY

Fundamental view : Shares in **Oracle** have underperformed this year on speculation of a deterioration in technology spending by corporates due to the weak global economic outlook. It should be pointed out however that earnings reports and guidance from large multinational software companies such as IBM, Microsoft and SAP have been extremely strong and we would expect Oracle produce similar results. Oracle also benefits from increasing its exposure to emerging market economies in the Asia Pacific region now representing c. 15% of group revenue. Oracle currently trades with a P/E of 15x and Price to revenue of 4.3x a discount to its peer group of 18x and 5x, respectively

Next Catalyst: The next major catalyst for Oracle will be in mid-March (exact date TBC) when the group is due to report its third quarter results where we expect the group to at least reaffirm guidance for the full-year.

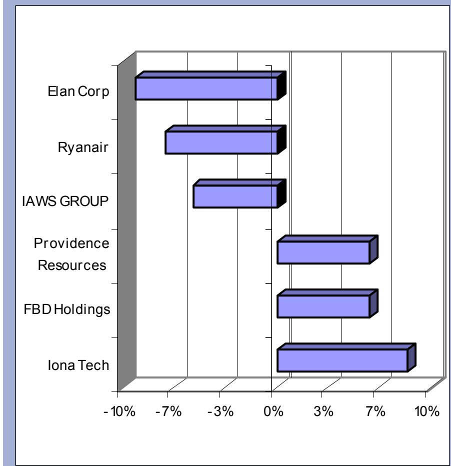
Chart view: Short-term trend is negative with series of bearish breakdowns. A close above the significant $19 dollar level is needed to improve short term outlook.

EARNINGS: **MON:** (Associated Brit Food, H1) (Hammerson, FY) **TUES:** (United Drug, AGM) (Target, Q4) (Kerry Gp, Prelim) (Home Dep, Q4) (Persimmon, Prelim) **WED:** (IL&P, FY) (Barret, H1) (Royal & Sun, FY) (W. Hill, Prelim) **THURS:** (Vinci, FY) (Dell, FY) (Aviva, Q4) (Trinity Mir, Prelim) (AIG, Q4) (Ladrokes, Prelim) (R.B.S, FY) **FRI:** (C&C, FY)

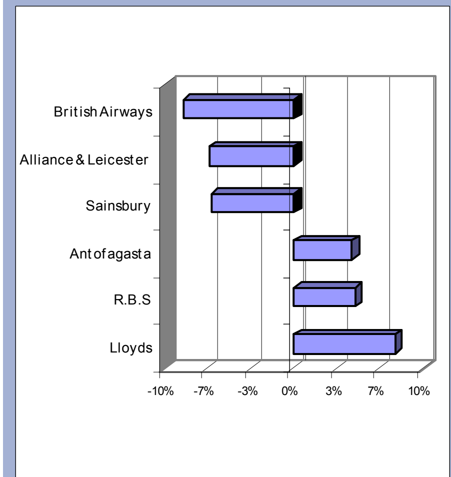
ECONOMIC: **MON:** (US Existing Home Sales), **TUES** (German IFO, US PPI, Consumer Confidence), **WED** (Euro-Zone M3, US Durable Goods, New Home Sales), **THURS** (Euro-Zone Confidence Numbers, US Jobless Claims), **FRI** (US Personal Income & Spending, Core PCE, Chicago PMI, Michigan Sentiment)

Last Weeks Best/ Worst Performers
18/02/08-22/02/08

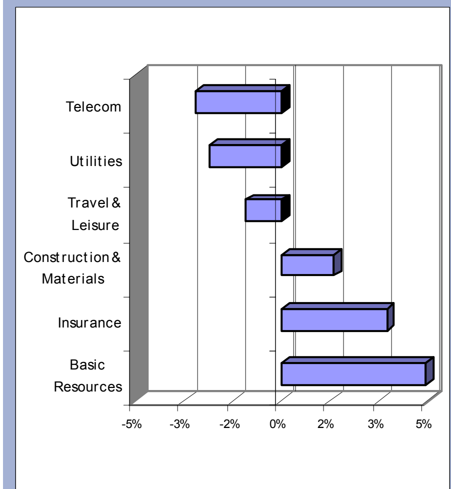
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	5.0%	-8.93%	AIB delivers strong 2007 results; total operating hit €4.87bn, up from €4.33bn.
Aviva	2.7%	-12.48%	Ahead of their results next week.
BP	-0.9%	-8.62%	BP aims for billions more barrels from Prudhoe Bay.
Coca Cola	-0.9%	-5.07%	Coca-Cola increases annual dividend by 12%, up from $1.36 to $1.52.
CRH	0.2%	8.39%	Homebuilder Sentiment shows 2nd successive mod-est uptick; (the national association of homebuilders)
Hewlett Packard	8.0%	-6.10%	HP's first quarter net income jumps 38% on strong notebook sales and HP raises its 2008 outlook.
IAWS	-7.8%	-19%	Lion capital has matched IAWS's 32% stake in Hiestand Holdings.
IL&P	-1.6%	-11.45%	Ahead of results next week.
Microsoft	-2.9%	-22.25%	MSFT are to publish critical info so rival programs can work better with windows products.
Paddy Power	1.4%	-8.49%	The UK government has elected to maintain the levy on bookmakers horse-racing related profits,.
Ryanair	-7.6%	-27.86%	Ryanair are to close their online booking site from 10pm on Friday until 11pm Monday .
Vodafone	-4.1%	-11.98%	Vodafone UK and Orange UK to begin sharing mo-bile mast sites in 2008.

DD Unrealised gain YTD	-6.43%	ISEQ YTD	-7.70%
DD Realised gain YTD	-10.55%	FTSE YTD	-8.80%
DD Total YTD	-13.89%	Average performance	-8.25%

Relative Performance -5.64%

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

What it says in the 'Sundays'

Company	Paper	Headline
Ladbrokes	S. Independent	Magnier and JP linked with 3pc Ladbrokes stake
ISTC	S. Tribune	ISTC looking for investors to reinvest in a €2m con-vertible loan note.
Heineken	S. Times	Brewing giant must try harder
Elan	S. Times	Elan mulls €1bn drug firm sell off
Ladbrokes	S. Times	Betting fan Lewis takes big punt on Ladbrokes
Marathon Oil	S. Business Post	Marathon Oil could off load Irish Operations, bidders lining up

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

Upcoming Corporate visits : Over the next few months we will have a number of Irish and International companies presenting to us. Bank of Ireland are due in on the 7th of March, Paddy Power have confirmed that the will present to us in May, while IAWs have said they will present to us after their results in March. We also expect to have the Irish management of Intel, Microsoft and Hewlett-Packard in to speak with us.

Last Weeks Moves

Equities

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	6401	-1.2%	-6.6%	3.0%	7.8
FTSE 100	5888	1.7%	-7.2%	4.1%	11.4
DAX	6806	-0.1%	-14.5%	2.9%	11.0
Dow Jones	12381	0.1%	-6.6%	2.5%	13.4
S&P 500	1353	0.1%	-8.0%	2.2%	13.7
Nasdaq	2303	-1.0%	-13.2%	0.9%	20.1
EuroStoxx 50	3199	1.0%	-12%	4.1%	9.5
Nikkei 225	13500	-0.1%	-11.0%	1.5%	16.2

Sector

Sector	Weekly move%	YTD move %
Basic Resources	4.91	1.82
Insurance	3.58	-14.54
Construction & Materials	1.79	-10.53
Media	1.56	-12.67
Industrials	1.34	-12.01
Banks	1.18	-17.76
Oil & Gas	0.84	-11.36
Food&Bev	0.47	-10.77
Autos	0.37	-16.89
Healthcare	0.17	-8.79
Financial Services	0.10	-10.37
Personal & Household Goods	0.08	-12.67
Retail	-0.05	-15.57
Chemicals	-0.11	-9.40
Technology	-0.20	-11.20
Travel & Leisure	-0.50	-14.43
Utilities	-2.47	-11.62
Telecom	-2.95	-13.97

Commodities

	Current	Change YTD
Crude Oil	$99.30	+3.5%
Gold spot	$951.50	+11.2%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.481	0.0%	1.55
EUR-GBP	0.754	+1.9%	0.75
EUR-JPY	159.3	-2.8%	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%	4.37%	3.50%
UK	5.25%	5.67%	4.50%
US	3.00%	3.08%	2.00%

Credit Market Summary

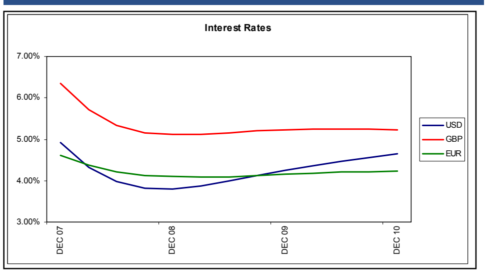
Spreads had a rollercoaster week this week, with high yield spreads widening to 630bp at one point during the week only to settle back around the 590bps level by Friday. The technical unwind of a number of CDO portfolios has caused spreads to widen 11% in the high yield index over the past 2 weeks; however the more pronounced move was in the investment grade index, which widened 27.5% over the same period. Given the still unresolved monoline problem and the self perpetuating credit trade unwind triggered by wider spreads we can only expect spreads to remain elevated and likely wider in the near term.

Credit Sector Movements

Food/Beverages: Wider in sector – biggest mover was Diageo with a 25% spread widening due to ongoing consolidation stories in the sector. Cadbury followed suit despite reporting they would not be indulging shareholders with increased dividends or share buybacks, widened 19.5% this week due to higher borrowing costs for the confectionary company. Compass was more subdued, widening 8.5%.

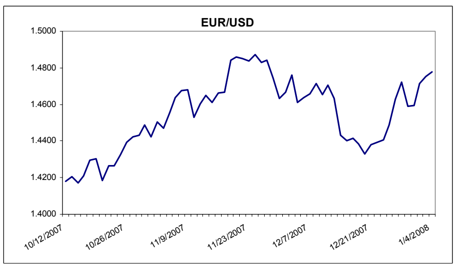
Media: Wider in the sector – BSY spreads widened 23% this week, after the company announced it would appeal the competition authority ruling to sell its 60% stake in ITV. WPP also widened 23% due to concerns regarding the outlook for an advertising company in an economic downturn, while Reuters was 20% wider after announcing it is likely to complete the Thomson merger in the second week in April.

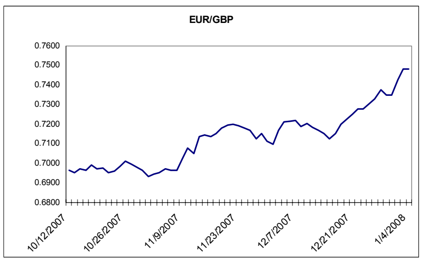
Interest Rate Outlook



US government bonds had a volatile week as US economic data continued to disappoint while the disconnect between credit and equity markets continued. The yield on the two-year treasury note rose by 11 basis points to 2.02% while the 10-year yield rose by 3 basis points to 3.80%.

Currency Comment





The US dollar weakened across the board last week driven by weak economic data and comments from the Fed suggesting downside risks to economic growth remain signalling that further rate cuts lie ahead. The market currently expects the Fed to eas by a further 50 basis points when it meets on March 18th. In Europe, economic data surprised to the upside with focus this week on German IFO figures due out on Tuesday.

Sterling weakened against the euro last week as the minutes from the Bank of England showed that the panel voted 8-1 to lower rates by 25 basis points with one BoE member, Blanchflower, voting for a 50 basis point cut. With little economic data out of the UK this week also focus will be on German IFO on Tuesday and Euro-zone confidence numbers on Thursday.

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