DOLMEN STOCKBROKERS

# Traders Update

## MARKET COMMENT

TUESDAY 25TH MARCH 2008

Even in a holiday-shortened week there was no respite from the on-going stock market volatility, as investor confidence ebbed and flowed with each piece of breaking news. The Fed backed 'bail-out' of Bear Stearns coupled with wider access to the Fed's funding channels for previously excluded market participants, such as prime brokers, certainly helped ease investor concerns over the state of the US banking sector. The additional imputus of a 0.75% cut in the Fed Fund's rate also gave the market a much needed boost. This boost however was, like previous reactions by the equity markets to Fed-led cash injections, short lived, and certainly received a less enthusiastic response from non-US markets. The difficulty for investors at the moment is that, while all very positive, the monetary and fiscal stimuli currently being enacted are not a quick-fix solution to the markets difficulties and in Europe and the UK in particular the cost of funding continues to remain at elevated levels. With key economic indicators continuing to move in the wrong direction, the short-term outlook continues to remain extremely uncertain, not helped by spurious rumours of distressed banks and by the heightened nervousness transmitted through increasing margin requirements. While the markets have dodged the bullet of another Bear Stearns, without doubt a positive, it will take some more time before we can consign the last six months to history.

## TRADING IDEAS, EARNINGS & PREVIEWS

### IN&M

**Price:** €1.73
**P/E:** 8.2x
**Div:** 8.7%
**Target:** €2.10

**BUY**

**Fundamental view :** This Thursday, 27th March, **Independent News & Media** (INWS) will announce its results for the year ended 31/12/07. We are forecasting revenue and earnings per share of €1.7 bn and 19c respectively to be announced, representing year on year increases of 3% and 10%. The revenue growth will be driven by 4% advertising revenue growth and 1% circulation growth. Irish advertising revenue is still expected to show high single digit growth, with strong recruitment and retail advertising more than offsetting a slowdown in property advertising. Our view is that the recent INWS share price weakness, at least partially driven by the company's removal from the DJ Eurostoxx Dividend Index, the last dealing day for which was last Thursday, has created an attractive entry level for medium term investors.

**Next catalyst :** The group's final dividend per share of c.9.13c is expected to go ex in mid April, which alone represents a yield of c.5.3% on the current 173c share price. With further 10% dividend per share growth expected in 2008 to 15.1c, the expected 2008 dividend represents a yield of 8.7% on the current share price. INWS' stronger than sector average earnings growth of c.10% for 2007 and 2008 also warrants a premium valuation, even though at 8.2x consensus 2008 eps of 21c, the shares continue to trade at a discount of c.24% to the current European newspaper sector average of c.10x. The above average probability of further major shareholder stake-building provides another potential positive catalyst for the share price

**Chart view :** Chart outlook is negative and medium-term downtrend is showing no signs of being over. However, the stock is oversold in the short-term and some upside is likely.

### Prudential

**Price:** £6.63
**P/E:** 8.05x
**Div:** 2.9%
**Target:** £7.50

**BUY**

**Fundamental view :** The share price of **Prudential** is now trading at c.1.2x 2007 year end embedded value* per share of £5.40, versus an historic sector average of c.1.5x. Such a rating does not fairly reflect the group's strong medium term growth prospects, primarily driven by its Asian business, which recently announced full year 2007 sales growth of 37%. The group's US business, Jackson National, which gives the group a major exposure to the world's largest insurance market, recently announced full year 2007 sales growth of 9%. Even though its 2008 return on embedded value could weaken to 13%, as a result of the fall in equity markets, it should recover to c.17% in 2009, in line with the group's historical average range of between 15% and 20%.

**Next catalyst :** Even though c.60% of Prudential's profits come from dollar or dollar-related currencies, there is an above average probability of Chinese insurance group, Ping An, buying at least a stake. Another potential positive catalyst for the share price could be the group's investor day in Asia on 22nd April, as it should highlight the division's continued strong medium term growth prospects. Our current 12 month price target of £7.50 (18% upside) is based on 1.4x 2007 embedded value per share of £5.40, with the high level of intra day volatility continuing to provide short term trading opportunities. * *Embedded value per share is an asset value measure used in the insurance sector which takes into account the capital value of life policies in force.*

**Chart view :** Stock continues to trade sideways with chart giving no clear signs. First strong upside resistance is at 692.

### Pairs Trade: Long Ryanair

**Price:** €3.04
**P/E:** 8.8x

### Short Easyjet

**Price:** £3.72
**P/E:** 9.1x

**Fundamental view** : After two weeks during which the share prices of **Ryanair** and **Easyjet** performed in line with each other, last week the share price of Ryanair outperformed Easyjet by c**.8%,** after the UK airline issued a profit-warning and its share price fell by 10%. Even though Ryanair's substantially stronger operating margin (c.20% versus c.9% for Easyjet) leaves it better placed to continue to be profitable during the current period of high fuel and fare discounting, this may now be quite fairly reflected in both airline's current ratings.

**Next catalyst** : As a result, while we continue to be comfortable recommending a **LONG** position in Ryanair at current levels, we would recommend **closing** the Easyjet **SHORT** position at its current £3.60 level. Ryanair's upcoming share buyback programme of up to €200m, which is expected to be completed between now and 5th June, could also act as a near term support for its share price from current levels

**Ryanair chart view :** Medium-term chart outlook is negative with series of bearish breakdowns. Key trend resistance is at €3.15. High probability of recent lows being retested.

**EasyJet chart view :** Failure to hold the key 400 area has resulted in significant losses. Chart suggests any recovery is likely to be short lived.

### Vodafone

**Price:** £1.54
**P/E:** 13x
**Div:** 4.7%
**Target:** £2.00

**BUY**

**Fundamental view :** Last week shares in **Vodafone** were pressured on comments from Deutsche Telekom that it was seen an increasing decline in fixed line revenue in Germany. It should be noted that Deutsche Telekom also reiterated its full-year earnings guidance which should be taken as a positive for Vodafone. We believe that any weakness in Vodafone's share price offers excellent buying opportunity given the defensive characteristics that the company's shares offer along with its emerging market growth prospects particularly in India and Turkey.

**Next Catalyst :** The next major catalyst for Vodafone will be on 27/05/08 when the group is due to report its fiscal full-year 2008 earnings. We expect the company to report a 9% rise in EPS to 12p with revenue increasing by 13% to £35.2bn. We also expect the company to issue a positive outlook for its 2009 financial year given its strong emerging market growth prospects.

**Chart view :** Negative chart outlook with pattern that suggests problems are far from over. The 162 level is key

### BHP Billiton

**Price:** £14.27
**P/E:** 5x
**Div:** 2.0%
**Target:** £12.50

**SELL**

**Fundamental view: BHP Biliton** shares have fallen by 8% since the beginning of the year. BHP has had an incredible run over the last 5 years as a result of strong commodity prices. This run could be about to come to an end, declines in commodities prices over the last few days suggest that the market is beginning to accept that future commodity prices could be considerably lower than current levels. A mild recession would significantly decrease global demand for commodity inputs, and similarly affect commodity prices. Although the company trades at about 5x 2008 earnings, given how vulnerable these earnings are, we feel the company is overvalued at current levels. .

**Next Catalyst :**The next catalyst for BHP will be moves in commodity prices, as well as changes in the global economic outlook. There is still the possibility of M&A activity in the sector, we would expect BHP to get a boost if its takeover of Rio Tinto is unsuccessful, and so caution is required. **Always trade short positions with a stop loss in place.**

**Chart view :** Stock has broken key support in the 1455 area on solid volume. A break of the 1340 area will set up a move to 1210. Caution required

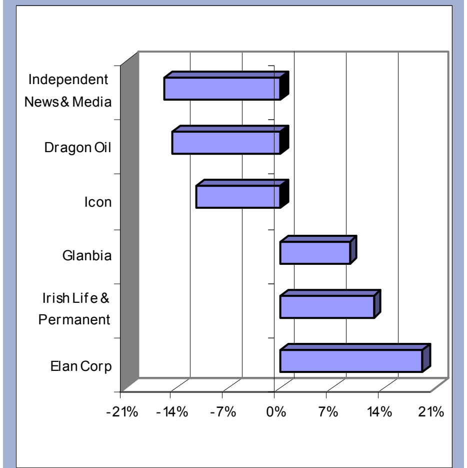
**EARNINGS:** **WED:** (United Utilities, TS) ( J.Sainbury, Q4 TS) (Reuters, EGM) (Bellway, H1) (Oracle, Q3) (Wienerberger, FY) **THURS:**(IN&M, FY) (Kingfisher, Preliminary) (H&M, Q1) (ConAgra Foods, Q3) (Land of Leather, H1) (Northern Foods, FY) **FRI:** (Enterprise Inns, H1)

**ECONOMIC:** **TUES** (US Consumer Confidence & Richmond Fed), **WED** (German IFO, US Durable Goods, New Home Sales ), **THURS** (US GDP, Jobless Claims ), **FRI** (Personal Income & Spending, Core PCE, Michigan Sentiment )

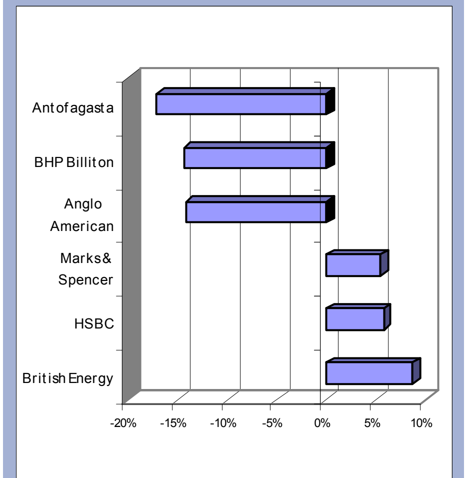
# DOLMEN STOCKBROKERS Traders Update

## Last Weeks Best/ Worst Performers
17/03/08-21/03/08

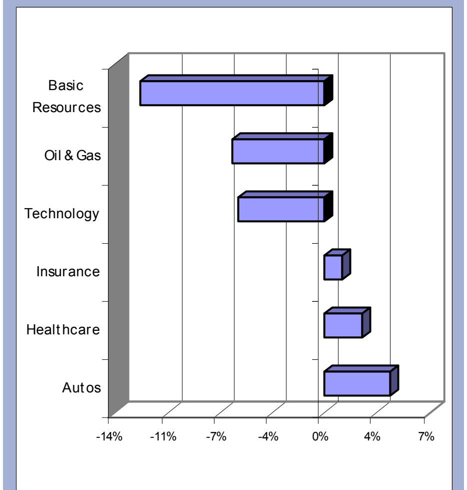
### ISEQ




### FTSE




### Sector changes WTD




## Dolmen Dozen
WEEKLY UPDATE

| Company | WTD | YTD | Relevant news |
|---|---|---|---|
| AIB | 2.5% | -15.23% | AIB delivers strong 2007 results; total operating hit €4.87bn, up from €4.33bn. |
| Aviva | 2.2% | -12.18% | Aviva buy majority to buy majority stake in Italian life insurer UBI Vita for €65 million. |
| BP | -6.2% | -19.35% | S&P equity research raises BP to strong buy from buy. |
| IN&M | -0.92% | -28.42% | Denis O'Brien raises stake in Independent to 21.2%. |
| CRH | -1.3% | -0.72% | CRH buys 50% in My Home industries for €290m |
| Hewlett Packard | 1.3% | -5.05% | HP expands virtualization capabilities of HP proliant servers with support of partners. |
| IAWS | 2.8% | -1% | The US CPI for baked goods and cereals for February rose by 6.2% year on year. |
| IL&P | 9.8% | -4.28% | IL&P's UK mortgage subsidiary to lay off 50 staff. |
| Microsoft | -4.4% | -18.06% | MSFT invests in maker of telecommunications software, signal of MSFT's ambitions for that market. |
| Paddy Power | 3.9% | -2.15% | Great Britain to auction Tote bookmaker |
| Ryanair | -0.7% | -38.69% | Ryanair launches French and German domestic routes |
| Vodafone | -0.7% | -20.50% | Peer Deutshe Telecom reiterates earnings guidance. |

| | | | |
|---|---|---|---|
| DD Unrealised gain YTD | -7.87% | ISEQ YTD | -9.71% |
| DD Realised gain YTD | -11.10% | FTSE YTD | -12.04% |
| DD Total YTD | -11.36% | Average performance | -10.87% |

Relative Performance -0.49%

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

## What it says in the 'Sundays'

| Company | Paper | Headline |
|---|---|---|
| Glanbia | S. Independent | Glanbia shares get carried away. |
| IP&M | S. Tribune | Plans link with Seniors Money. |
| Anglo | S. Tribune | Faces worst hedge fund threat. |
| Irish Banks | S. Business Post | Banks are a Bargain? |

## Upcoming Corporate Visits

| COMPANY | PRESENTATION DATE |
|---|---|
| AIB | 28/03/2008 |
| IAWS | 04/04/2008 |

# Last Weeks Moves

## Equities

| Equities | Level | Change WTD | Change YTD | Div Yield | P/E08 |
|---|---|---|---|---|---|
| ISEQ | 6159 | 2.7% | -11.2% | 3.3% | 7.0 |
| FTSE 100 | 5495 | -2.4% | -14.9% | 4.7% | 11.0 |
| DAX | 6320 | -2.0% | -21.7% | 3.2% | 10.7 |
| Dow Jones | 12361 | 3.4% | -6.8% | 2.5% | 14.6 |
| S&P 500 | 1331 | 2.6% | -9.3% | 2.2% | 20.3 |
| Nasdaq | 2258 | 2.1% | -14.9% | 0.9% | 20.1 |
| EuroStoxx 50 | 2941 | -2.5% | -20.2% | 4.7% | 10 |
| Nikkei 225 | 12483 | -2.0% | -18.5% | 1.7% | 14.2 |

## Sector

| Sector | Weekly move% | YTD move % |
|---|---|---|
| Autos | 4.328 | -17.355 |
| Healthcare | 2.487 | -14.203 |
| Insurance | 1.194 | -16.312 |
| Banks | 0.196 | -21.635 |
| Retail | -0.337 | -19.447 |
| Food&Bev | -0.648 | -9.813 |
| Media | -1.37 | -20.857 |
| Construction & Materials | -1.481 | -16.425 |
| Travel & Leisure | -1.627 | -22.82 |
| Chemicals | -1.687 | -13.75 |
| Personal & Household Goods | -2.175 | -17.238 |
| Utilities | -3.142 | -17.375 |
| Telecom | -3.661 | -23.885 |
| Financial Services | -4.543 | -19.098 |
| Industrials | -5.716 | -19.84 |
| Technology | -5.727 | -27.071 |
| Oil & Gas | -6.139 | -20.169 |
| Basic Resources | -12.261 | -13.385 |

## Commodities

| | Current | Change YTD |
|---|---|---|
| Crude Oil | $101.84 | +6.3% |
| Gold spot | $919.50 | +10.3% |

## Exchange Rates

| | Current | YTD Change | Year End (est) |
|---|---|---|---|
| EUR-USD | 1.543 | +5.8% | 1.55 |
| EUR-GBP | 0.779 | +6.0% | 0.75 |
| EUR-JPY | 153.7 | -5.7% | 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% | 4.67% | 3.50% |
| UK | 5.25% | 5.98% | 4.50% |
| US | 2.25% | 3.55% | 2.50% |

## Credit Market Summary

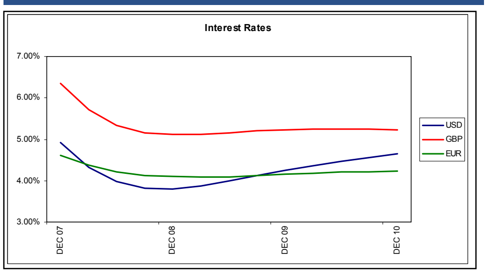
Credit markets are opening the week in relatively good mood following the increased JPM bid for Bear Sterns and the better than expected housing data out of the US yesterday. The credit indices rolled-over last week without major disruption to the market leaving the high yield index at 560bps (636bps high March 11th); investment grade index at 117bps (158bps high March 11th); while the financial index of spreads also trades at 117bps (157bps high March 11th). Near tern negative news flow is likely however in general the credit markets are cheered that the Fed's initiatives with regard to the housing market, seemed to trigger a turnaround on March 11th, however we should remain mindful of ongoing risks due to market volatility.

## Credit Sector Movements

**Automotive:** tighter in the sector – spreads moved tighter across the board, with the biggest move in Peugeot (-35%); BMW (-21%) and Daimler (-16%). In the US both GM and Ford remained unchanged at around the 1200bps mark each.

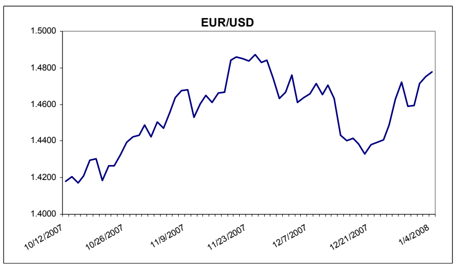
**Retailers:** Tighter in the sector – out-performers were Morrisons; 33% tighter and MKS 31% tighter – while all food retailers tightened last week the two standout under-performers remain Dixons and Kingfisher.

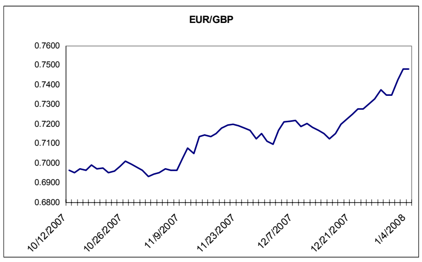
## Interest Rate Outlook




The yield on the US two year treasury strengthened by 16bps over the week to 1.76% as the US Federal Reserve brought some calm to the market assisting in the bailout of Bear Stearns and also opened the its discount lending window to the inter-broker dealers. European yields were also stronger with the two-year firming 20bps over the week to 3.47%.

## Currency Comment




The $ strengthened significantly against € last week following the Fed's decision to lower interest rates by 0.75% versus 1.00% expected. A better than expected Philly Fed number also helped to lift the currency off its historical lows. Focus will be in both the US and Europe in particular on Wednesday with German IFO and US Durable Goods & New Home Sales data the key focus.

Sterling traded flat against € last week despite increasing expectations that the Bank of England will lower interest rates again by 25bps when it meets on April 10th. Data is relatively light out of the UK this week so the main focus will be in Europe and in particular German IFO. Any weakness in the number could see gain ground.

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