

DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

26.02.2007



Dolmen Stockbrokers

Section

1 Market View

26/02/2007

Last week the global equity markets continued to move higher following Mr Bernankes up-beat testimony to Congress the previous week. As you recall, while being up beat he also cautioned that while inflation pressures were easing, vigilance was still required. Last Wednesday this call for vigilance was manifested with the release of a higher than expected CPI number. The release of this higher reading resulted in equity markets retreating somewhat but not before hitting multi-year highs, most notably the ISEQ which breached 10,000 for the first time. Overall, despite the weakness towards to end of the week, the underlying trend for markets continues to be upwards and with a raft of corporate results due to be released in Ireland, the UK and Europe, over the next few weeks, this upward momentum should continue.

Current Trading Ideas

Trading ideas	
<p>Morrison Last rec @ £3.03 Current: £3.05 Target: £3.30 Stop-loss: £2.90</p>	<p>In conjunction with the announcement of its results for the year ended 29/01/07 on Thursday fortnight, 15th March, Morrison, the UK supermarket, will present a strategic review of its balance sheet. The consensus forecasts are that full year profit before tax and eps of £318m and 8.2p respectively will be announced, representing major year on year increases on the prior year comparatives of £54m and 4.39p. However, given the major freehold property assets owned by Morrison (95% of stores), and its very under-gearred balance sheet, there is significant potential for the upcoming review of the group's balance sheet to act as a positive catalyst for the share price. Following the recent private equity takeover approach for Sainsbury, there is now greater pressure for existing management to unlock such property value. The fact that a new management team has recently taken over at Morrison may also make it more likely for a radical balance sheet review to be presented at the full year results' announcement. Based on current forecasts for cash flow from operations, Morrison would be debt free within 2 years. Morrison's cashflows could comfortably support a debt level representing 50% of the value of its freehold property portfolio. Using the proceeds of such a debt issue to buy back shares at £3.20 each would lower the group's cost of capital and could boost the group's forward eps (for the year ending 31/01/09) by 20% from 18p to 22p. As a result, our current 12 month price target for Morrison of £3.30 is based on 15x forward eps of 22p: BUY.</p>
<p>Grafton Last rec @ €12.73 Current: €12.79 Target: €14.00 Stop-loss: €12.00</p>	<p>On Thursday, Grafton Group will announce its results for the year ended 31/12/06. Following the group's December trading statement, the consensus forecasts are for operating profit and underlying earnings per share of €240m and 75c respectively, representing year on year increases of 11% and 13%. The consensus forecast is that this H2 2006 recovery in the UK housing market will offset the weakness of H1 2006 and result in a full year 2006 UK operating margin of 6.25%, versus 6.8% for full year 2005. A slight improvement in the group's UK operating margin to 6.5% is now forecast for 2007. However, if a stronger recovery than this materialises to say 7%, this would imply an upgrade of c.3% to the 2007 group eps from 85c to 87.5c. Sales growth also continues to be generated by bolt-on acquisitions and new openings. With Grafton's net debt forecast to fall to c.€500m as at 31/12/06 (gearing level of c.51% versus average of c.70% over the past 7 years), there is the potential for a 2007 acquisition spend of up to €500m. This could provide the potential for further earnings upgrades of up to 10%, based on typical acquisition multiples. Grafton also has the potential to generate a further c.€200m from the sale of some of its valuable sites to help fund this continued expansion. Our current 12 month price target to €14 is based on 15x 2008 eps of 94c: BUY.</p>
<p>C&C Last rec @ €11.67 Current: €11.82 Target: €13.00 Stop-loss: €11.00</p>	<p>On Wednesday, C&C will release a trading statement for the year ending 28/02/07, which should confirm that the group will generate full year earnings per share of 54c, in line with current consensus market forecasts, and representing year on year growth of 80%. Given the capacity expansion currently underway and the continuing strong year on year growth in cider consumption, particularly in the UK, the group's forward guidance should be upbeat and provide reassurance for further eps growth of at least 20% to 65c for the year ending 28/02/08. Our current 12 month price target of €13 is based on 20x forward eps of 65c. Other potential positive catalysts near term for the C&C share price could be the announcement of expansion into a new European market, such as Spain, or the announcement of a share buyback programme, perhaps in conjunction with the full year results on 9th May: BUY.</p>
<p>FBD Last rec @ €42.50 Current: €42.60 Target: €48.00 Stop-loss: €41.15</p>	<p>On Wednesday week, 7th March, FBD will announce its results for the year ended 31/12/06. The consensus forecasts are for profit before tax (pbt) and eps of €250m and €3.70 respectively, representing year on year increases of 35% and 2%. The reason for the major difference between the pbt and eps results is a major exceptional profit generated from the sale of Spanish property. Even though the group's 2006 underwriting result is expected to be weaker year on year as a result of lower premiums from increased competition, a trend which is likely to continue for 2007, FBD's substantial surplus capital position creates further share price upside potential. When account is taken of the value of the group's insurance business surplus claims reserves of c.€150m, and the group's additional surplus capital of €250m, even after allocating €100m of capital for the group's property business, a fair value per share estimate of €48 can be calculated. This is as a result of capital representing only 50% of net earned premiums being required to fund the group's insurance business (c.€180m), and because year end 2007 group shareholder' funds is forecast to be c.€550m : BUY.</p>

<p>Aviva Last rec @ £8.43 Current: £8.40 Target: £9.00 Stop-loss: £8.30</p>	<p>On Thursday, Aviva will announce its results for the year ended 31/12/06. The consensus forecast is for operating profit before tax of £3.3 bn, representing a year on year increase of 14%, with the full year dividend per share being increased by 9% to 29.8p. The main driver of the growth will have been 16% year on year growth in life and pension new business premiums to £26.852 bn. Aviva is guiding further strong 15% sales growth for 2007, driven by particularly strong international sales growth. This international sales growth will be boosted by the group's August 2006 acquisition of US life insurer, AmerUs Group, for \$2.9 bn in cash, with the initial contribution of AmerUS to the group's 2006 sales results showing 21% year on year growth, helped by the introduction of new products. Given that Aviva's 2007 return on embedded value of 15% is forecast to be c.10% stronger than the UK sector average, its price to embedded value (EV) should trade at a similar premium. Therefore, our current 12-month price target of £9 is based on 1.7x 2006 EV per share of £5.30. The equity market strength of the past 6 months should help generate further strong double digit embedded value per share growth in 2007, creating additional share price upside potential: BUY.</p>
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Other live trading ideas

Date of Rec	Company	Price (at time of Rec)	Last Close	Source	Analyst	Target Price
15-Dec	Irish Life & Permanent	20.80	22.45	Daily	SD	23.00
20-Dec	Greencore	4.45	4.56	Daily	SD	4.80
08-Jan	Tullow Oil	3.70	5.71	Daily	SD	4.20
22-Jan	Prudential	7.18	7.00	Weekly	SD	8.20
22-Jan	Sterling Energy	0.17	0.17	Daily	SD	0.28
02-Feb	Anglo Irish Bank	16.05	16.57	Daily	SD	17.50
05-Feb	Ryanair	11.22	12.35	Daily	SD	13.00
06-Feb	BP	5.32	535	Daily	SD	6.00
07-Feb	BHP Billiton	9.86	11.08	Daily	SD	11.50
08-Feb	GSK	13.98	14.50	Daily	SD	15.00
12-Feb	AIB	23.25	23.45	Weekly	SD	24.00
12-Feb	CRH	32.22	33.12	Weekly	SD	37.00
12-Feb	RBS	20.64	21.14	Weekly	SD	22.50
12-Feb	Vodafone	1.49	1.46	Daily	SD	1.60
13-Feb	British Land	16.39	16.15	Daily	SD	17.50
19-Feb	DCC	27.30	26.90	Weekly	SD	28.00
19-Feb	United Drug	3.97	4.00	Weekly	SD	4.40

Dolmen Dozen Weekly Update

Company	Change on week	Relevant news
AIB	-1.26%	After the group's Polish business last week stated that it expected continued strong loan growth in 2007.
Aviva	-1.41%	Ahead of full year results due to be announced on Thursday.
BHP Billiton	1.56%	Following the recent announcement of a surprisingly large \$10 bn share buyback increase.
BP	-0.37%	As the group continued to buyback and cancel large amounts of its own shares.
British Land	-1.58%	Following the recent announcement of a NAV per share of £16.85 as at 31/12/06.
CRH	0.06%	After European peer, Lafarge, last week raised its 2007 guidance and announced a €500m share buyback.
Greencore	-0.44%	At the recent AGM, it was stated that the demerger of the group's property assets would be considered in the future.
GSK	-2.03%	Following the recent release of stronger than expected 2007 earnings growth guidance.
INWS	0.00%	Following the recent announcement of improved January 2007 circulation figures from some of its UK titles.
RBS	-0.14%	Ahead of full year results due to be announced this Thursday.
Ryanair	-0.80%	Following the recent release of significantly stronger than expected Q3 results.
Vodafone	-2.67%	Following the recent successful acquisition of a 67% stake in Indian mobile group, Hutchinson Essar, for \$11.1 bn.

Sunday Papers

Paper	Company	Comment
Sunday Times	Vodafone	Passage to India rings up profits
Sunday Times	DCC	Building on a sound future
SBP	Banks	Banks braced for Mortgage showdown
SBP	IL&P	David Went, stepping down at a profitable time for the company
Sunday Independent	Aer Lingus	Aer Lingus should not do business with amateurs
Sunday Tribune	Airtricity	Hit out at state's carbon credit plan
Sunday Tribune	Oil	Petroleum law in Iraq to allow foreign companies in

Economic Calendar

Date	Region	Event	Period	Consensus	Prior
27/2/07	GE	IFO Feb. Business Climate Survey by Industry (Table)			
27/2/07	EC	Euro-Zone M3 s.a. (YoY)	JAN	9.40%	9.70%
27/2/07	US	Durable Goods Orders	JAN	-2.50%	2.90%
27/2/07	US	Durables Ex Transportation	JAN	0.00%	2.70%
27/2/07	US	Richmond Fed Manufact. Index	FEB	--	-11
27/2/07	US	Existing Home Sales	JAN	6.24M	6.22M
28/2/07	US	GDP Annualized	4Q P	2.30%	3.50%
28/2/07	US	Personal Consumption	4Q P	4.20%	4.40%
28/2/07	US	GDP Price Index	4Q P	1.50%	1.50%
28/2/07	US	Core PCE QoQ	4Q P	--	2.10%
28/2/07	US	Chicago Purchasing Manager	FEB	50	48.8
28/2/07	US	New Home Sales	JAN	1085K	1120K

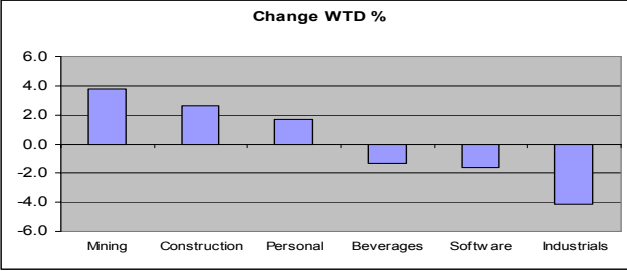
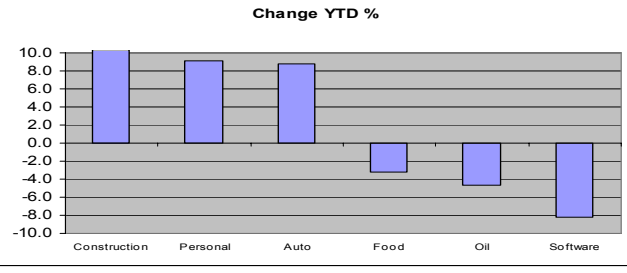
Corporate Calendar

Date	Region	Company	Event
26/02/2007	GB	Pearson	FY Results
26/02/2007	GB	Associated British Foods	Trading statement
26/02/2007	GB	Persimmon	FY Results
26/02/2007	IRE	McInerney	FY Results
27/02/2007	GB	Standard Chartered	FY Results
27/02/2007	IRE	Kerry	FY Results
28/02/2007	GB	HBOS	FY Results
28/02/2007	IRE	Irish Life & Permanent	FY Results
28/02/2007	IRE	C&C	Pre close trading statement
28/02/2007	IRE	Trintech	FY Results
01/03/2007	GB	Partygaming	FY Results
01/03/2007	GB	RBS	FY Results
01/03/2007	GB	Aviva	FY Results
01/03/2007	GB	British American Tobacco	FY Results
01/03/2007	GB	Reuters Group	FY Results
01/03/2007	IRE	Grafton	FY Results
02/03/2007	GB	Gallagher Group	FY Results
02/03/2007	GB	Rank Group	FY Results
02/03/2007	GB	Wilson Bowden	FY Results
02/03/2007	IRE	Readymix	FY Results

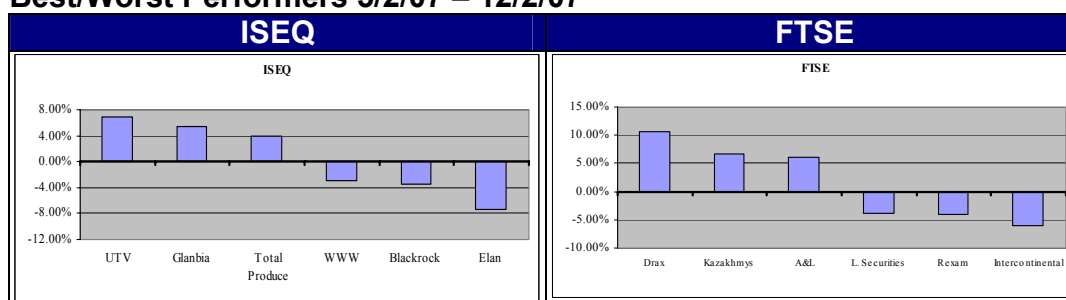
Last Week's Moves

	Levels	Last week's moves	YTD Move
Equities			
DJ INDUS. AVG	12654.69	-0.84%	1.56%
S&P 500	1451.82	-0.32%	2.39%
NASDAQ	2517.04	0.83%	4.24%
DJ	3816.88	-0.27%	3.24%
FTSE 100	6401.5	-0.28%	2.91%
DAX	6992.578	0.51%	6.00%
ISEQ	9910.359	0.03%	5.38%

	Div Yield- 2007	EPS Growth 2007	P/E- 2006	P/E-2007
ISEQ	2.45%	8.7%	15.61	13.97
UK	3.75%	7.3%	13.33	12.42
US	2.03%	7.7%	16.43	15.25
Euro	3.46%	6.25%	13.26	12.48

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Construction	2.60	10.28	 
Personal Goods	1.67	9.08	
Autos	-0.40	8.80	
Chemicals	1.64	7.31	
Mining	3.77	7.03	
Media	-0.24	7.00	
Tobacco	-0.07	5.91	
Telecoms	-1.03	4.05	
General Retailers	-0.25	3.87	
Pharmaceuticals	0.18	3.84	
Leisure Goods	0.10	3.47	
Insurance	0.03	3.43	
Banks	-0.02	3.22	
Technology	-0.14	2.32	
Beverages	-1.31	0.63	
Utilities	-1.27	0.57	
Industrials	-4.12	-0.29	
Food Producers	-1.01	-3.26	
Oil & Gas	-0.13	-4.69	
Software	-1.64	-8.20	

Best/Worst Performers 5/2/07 – 12/2/07



On Tuesday the ISEQ briefly broke through the 10,000 mark two months after the it first passed the 9000 levels, however the stay was a short one with the index finally finishing the day at 9,981. Elan posted better than expected results but sales of their drug Tysabri were below consensus. DCC announced on Wednesday that Jim Flavin will take over as chairman from June. Profit taking in other stock that had performed well over the previous weeks prevented the index from moving higher.

On Monday the FTSE reached highs not seen for around six years, on a day was muted due to a US holiday. Mining shares ended broadly higher as metals prices stayed firm. However oil and gas companies such as BP dragged on the index on Tuesday. The oil sector declines came after crude-oil futures fell pressured by forecasts for warmer weather in the northeastern US. Anglo American led mining sector declines on Wednesday after detailing a lower-than-expected buyback plan, sending London's top index lower despite a rally from banking group Alliance & Leicester. On Thursday BAE Systems one of the strongest advancers after it said that 2006 profit more than doubled.

Section

3 Commodity, Currency & Credit Markets

	Current			YTD Change		
	EURO	GBP	USD	EUR	GBP	USD
Base Rate	3.50%	5.25%	5.25%	0.00%	0.25%	0.00%
3 Month	3.85%	5.54%	5.21%	0.03%	0.22%	0.08%
12 Month	4.12%	5.80%	5.06%	0.07%	0.18%	0.05%
5 Year	3.99%	5.23%	4.65%	0.07%	0.09%	-0.04%
10 Year	4.04%	4.89%	4.67%	0.10%	0.15%	-0.03%
CRUDE OIL FUTR Mar 07	61.46			-2.69%		
NAT GAS FUTR Mar 07	7.691			18.33%		
GOLD SPOT \$/OZ	685.45			7.63%		
SILVER SPOT \$/OZ	14.625			13.02%		
LME ALUMINUM 3MO (\$)	2795			-0.29%		
LME COPPER 3MO (\$)	6135			-3.08%		

Exchange Rates

	Current	YTD change	Year End Forecasts
EUR-USD X-RATE	1.3163	-0.25%	1.350
EUR-GBP X-RATE	0.6703	-0.49%	0.665

Forecast 2007

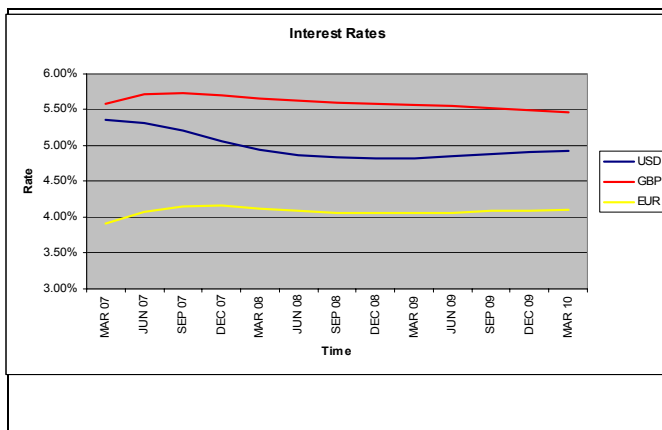
GDP	Current	2007(e)
Ireland	7.70%	6.00%
Euro Zone	2.70%	2.50%
UK	2.90%	3.00%
US	3.00%	2.00%

Central Bank Interest Rates	Current	2007(e)
Ireland	3.50%	3.75%
Euro Zone	3.50%	3.75%
UK	5.00%	5.25%
US	5.25%	4.75%

Inflation	Current	2007(e)
Ireland	4.40%	5.50%
Euro Zone	1.90%	2.10%
UK	2.70%	2.90%
US	2.00%	1.20%

10 Year Bond Yields	Current	2007(e)
Ireland	4.01%	3.65%
Euro Zone	4.01%	3.65%
UK	4.81%	4.50%
US	4.69%	4.35%

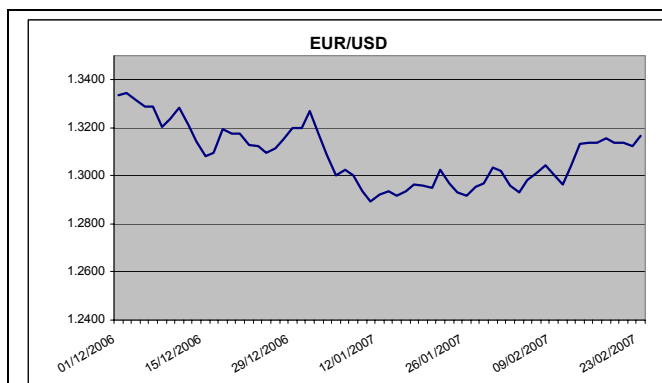
Bund Comment



Comment:

10 Year Yields last week were unchanged on the week at 4.04, a degree of volatility around the stronger than expect US CPI number, yields rose to 4.08 before falling back on Friday as buyers came in. Focus in Eurozone will be on Jan M3 and Feb's flash CPI estimate. Strong, money supply growth is getting increasing concern from ECB. Even though Jan's growth is expected to moderate slightly from 9.7% yoy growth to 9.5%, it still remain on an uncomfortably high level which should support further rate hike from ECB this year. On the other hand, Eurozone Feb CPI is expected to stay at 1.9%, which is kept within ECB's target range which could prompt ECB to act slower on further tightening. Both data will be closely watch and market expectation on further ECB monetary policies will shift with surprises in these data.

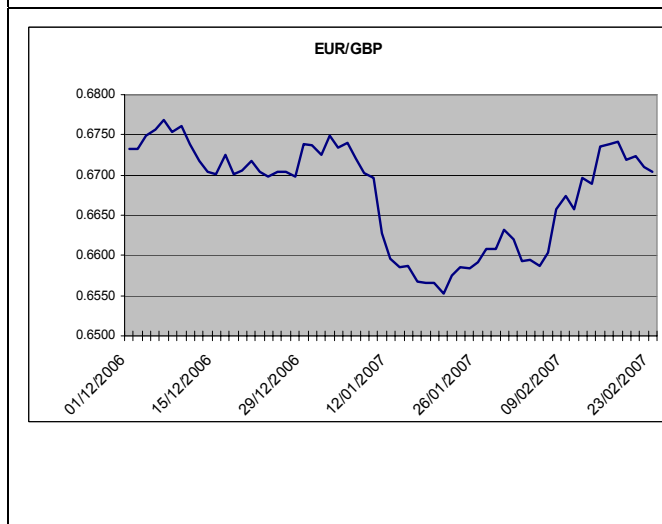
Currency Comment



Comment: EUR/USD

EURUSD remained in a tight range for the week, with marginal USD strength being unwound on Friday partly on geopolitical concerns and partly due to position unwinding ahead of this week's jam-packed economic calendar, which could be the signal on further weakness in the short term.

The coming week should be an important week for the dollar in short term. Dollar's recovery against Euro was less than impressive last week and could have already completed. With an economic calendar that's jam-packed with important data, any downside surprise could trigger dollar through near support, which in turn trigger further dollar selling. Special focus will be on Wed's prelim Q4 GDP which is expected to revise downward from 3.5% to 2.5% growth. Thursday's ISM manufacturing index will also be closely watched for a rebound to above 50 again. Other important economic data include durable goods, consumer confidence, existing and new home sales, Chicago PMI as well as Jan PCE.



Comment: EUR/GBP

BoE minutes revealed that the decision to hold rate steady at 5.25% earlier this month was done by a margin of 7 to 2 vote, which was inline with consensus expectation. Tim Sentance and Andrew Besley voted in favor of an immediate rate hike. The arguments in favor of a rise included the upswing in near-term inflation expectations, rising producer price growth, as well as money supply and asset price growth. The minutes also emphasized the downside risks to inflation due to volatility in energy prices.

Together with the information from previous inflation data and BoE inflation report, we believe that even though another hike is still needed to bring down inflation to below BoE's target rate of 2%, the MPC will continue the wait-and-see attitude and the timing will very much depend on the upcoming data. With a quite week for GBP we expect the EUROGBP to continue to consolidate around the .6700 level with a marginal bias for Euro strength on the back of a strong week of Euro area data.

Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Current Yield	
AAA	Rabobank	3.65%	4.18%	<p>Credit markets continue to ignore US inflation data and weak equity markets and opt to continue tightening – investment grade ITRAXX 21bps this week from 23bps last week. The same applied to the high yield index, which reached new lows of 171bps, a huge move from last weeks 182bps. The credit markets are unlikely to change direction, especially in the absence of macro data, and therefore volatility remains idiosyncratic.</p> <p>*ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market</p>
AA	Deutsche Bank	3.95%	4.32%	
A	Tesco	3.83%	4.29%	
BBB	MKS	5.30%	5.85%	
BB	Royal Caribbean Cruise lines	5.73%	5.99%	

Sector Movements in week ended 23/02/2007:

- Automotive:** Tighter across the board – the biggest mover was DCX tightening 5bps this week on reports that the company is considering a divorce from its struggling Chrysler unit. Elsewhere investors happily bought German automakers BMW and VW, which tightened 3bps and 2bps respectively. French automakers Peugeot and Renault each tightened 1bps this week. In the US rumours of GM's interest in the Chrysler unit was dismissed by credit investors (spreads tightened 8bps in GM 5yr CDS) as rumours of private equity interest seems a more likely outcome given the problems GM has to contend with already at home. Ford also tightened 4bps in the 5 yr CDS, a small move in this name in an unusually quiet week for Ford.
- Building materials:** Mixed in the sector – both LaFarge and Pilkington tightened 1bps this week, while Heidelberg and Saint Gobain were unchanged. LaFarge reported 12% growth in FY 2006 profit, attributed to expansion of cement plants in China and India. The company expects to maintain conservative debt metrics while buying back €500m in shares this year.
- Chemicals:** Quiet in the sector - the only mover was Linde, which tightened 2bps this week after the company used disposal proceeds to reduce debt. BASF was unchanged despite announcing a €3b share buyback programme and a 50% increase to dividends.
- Airlines:** Tighter for the most part in the sector – Deutsche Lufthansa and British Airways continue to tighten, 2bps and 1bps respectively. LHA has tightened 15% since the beginning of the year while British Airways has tightened 20% over the same period. Elsewhere BAE was unchanged despite announcing strong results and plans to strengthen credit metrics. Rolls Royce was also unchanged.
- Food/Beverages:** Mixed in the sector – Cadbury's tightened 2bps despite reporting a slump in H2 profit, adversely affected by higher input costs and a warm Summer in 2006. Compass was also 2bps tighter over the week as investors continued to flood the name following last weeks reports of greater than expected number of contracts in Q1 2007.
- Telecoms:** Tighter across the board – Deutsche Telecom and BT each tightened 3bps this week while Vodafone tightened 2bps. Since the beginning of the year DT has tightened 18%; BT has tightened 20% while Vodafone is essentially unchanged at 4% tighter.
- Retail:** Tighter for the most part in the sector – Sainsbury's was the only name to see a wider spread move, widening significantly on Friday on renewed LBO rumours. Other UK food retailers were unchanged however French supermarket Casino Guichard was also moving wider on Friday, again on likely LBO rumours. Non-food retailers were tighter, the only name to remain unchanged was MKS. Elsewhere Dixons, GUS, Kingfisher and Boots were all 2bps tighter following a heavy week in these names.
- Media:** Mixed in the sector – EMI reversed last weeks move by tightening 15bps this week despite reports in the FT this week that private equity houses were possibly interested EMI - the lack of a wider move in CDS spreads would indicate the credit market does not hold much credence in these rumours. BSY was the only name in the sector to widen this week, moving 2bps on the week. WPP was unchanged.

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