

Traders Update

MONDAY 28TH MAY 2007



Brief Market Comment

We referred last week to the idea of a consolidation being healthy for equity markets following their relentless run upwards since their February/March lows. Last week we saw the first signs of this and indeed the short-term potential for a slight pull-back as investors look to lock in recent gains following the returns experienced since we hit the 2007 lows with the Dow +12%, S&P +11%, ISEQ +10%, FTSE +9% and the DAX up a whopping 20%. While this pause for breath was down in part to profit taking, and a slow-down in the takeover rumour mill, it was assisted by comments from ex-Fed Chairman Alan Greenspan who expressed his grave concern over the over-priced Chinese equity market and the possibility of a significant correction in that market. While other markets sold off in sympathy, the effect was relatively short-lived. Of greater concern for markets continues to be economic data and the outlook for interest rates. In this regard, stronger than expected US housing data helped sentiment towards that sector while US interest rates look as if they will on hold for quite a while yet.

All attention in this holiday-shortened week will be non-farm payroll data on Friday where a gain of 125,000 will be expected, a figure that should support the view that while the US economy is slowing, the labour market remains strong.

The one observation to make about the recent trading in the markets is that the breadth (the ratio of advancing stocks to declining ones) has deteriorated with more stocks falling than rising even on the up-days. This is something that needs to be closely monitored, since a continuation of this trend could leave markets vulnerable to any bad news.

Current Trading Ideas

AIB
 Current: €22.60
 Target: €24.50
 P/E 07 11.14
 Div Yield 07 3.48%
 Next Results 06/06/07
BUY

The pension and general election uncertainties which have overhung the **AIB** share price in recent weeks have now been eliminated. The board of AIB has agreed to recommend a new "hybrid" defined benefit (DB) / defined contribution (DC) pension for Republic of Ireland staff. The new DB scheme will apply to earnings up to €61,997, with a DC scheme applying to earnings above that level. Given the €61,997 salary cap and that staff are also making a contribution of 5% of pensionable salary, the new pension structure is not expected to result in any material changes to consensus earnings forecasts. The weekend's general election win in ensuring that the Irish government remains largely unchanged for another 5 years eliminates another uncertainty that a new left of center government could have had an adverse effect on the prospects for continued Irish economic growth. As a result, attention should now return to the prospects for continued strong earnings growth from the Irish banks, which is likely to be demonstrated by Bank of Ireland's full year results' announcement this Thursday.

British Land
 Current: £14.20
 Target: £17.50
 NAV 07 £16.82
 Div Yield 07 1.8%
 Next Results 15/08/07
BUY

Last week, **British Land** (BL) announced its results for the 12 months ended 31/03/07. NAV per share of £16.82 was c.1% ahead of the consensus forecast of £16.72, and was a year on year increase of 13%. The growth was primarily driven by British Land's c.30% exposure to the fast-improving London office market. The company also stated that it would accelerate its portfolio repositioning over the next 12 months to counteract the slowing rental growth of the retail warehousing sector, representing c.20% of the overall portfolio. On a like for like basis, rental income increased by 3.5%, ahead of the overall market's 2.9% gain. With c.3 msf of office development projects delivering over the next 2 years, the vast majority of which is located in the fast-improving London City area, we are still forecasting further 9% NAV per share growth over the next 12 months to £18.33 as at 31/03/08.

Ryanair
 Current: €5.35
 Target: €6.50
 P/E 07 16.61
 Div Yield 07 0.00%
 Next Results 5/6/07
BUY

Recent comments from **Ryanair's** deputy group chief executive that the airline's June average fare could be as much as 10% lower year on year has generated another attractive entry level sub €5.50 for medium term investors. Following the previous recent cautious comments from the airline in relation to the current yield environment, there was a consensus move to reduce the current year average fare assumption by 1%, which reduces the consensus eps for the year ending 31/03/08 by 4% from c.33.5c to 32.2c. We were already at 32.5c, on which current 12 month price target of € 6.50 is based using our usual 20x forward eps multiple. The latest re-rating below €5.50 implies attractive upside even in the event of a further 1% reduction in the current year average fare following the airline's full year results' announcement on 5th June. In conjunction with this results' announcement, clearer guidance is likely to be issued concerning the extent of the current yield softness and the removal of this uncertainty could act as a positive catalyst for the share price.

GlaxoSmithKline
 Current: £13.34
 Target: £14.50
 P/E 07 13.89
 Div Yield 07 4.01%
 Next Results 25/07/07
BUY

An article published last week suggested that **GlaxoSmithKline's** Type-2 diabetes drug, Avandia, increases the risk of heart attacks. Avandia is forecast to contribute c.8% of GSK group sales in 2007, increasing to c.9% in 2008 and 2009. Therefore, under a worst case scenario where it is necessary to reduce the consensus 2008 eps of £1.08 by 10% to 97.2p, there still appears to be upside potential for the GSK share price from current levels. Given that the EU pharma sector average is currently trading at c.17x 2007 earnings, a 12 month price target for GSK of £14.50 based on 15x forward earnings appears reasonable to account for GSK's slightly lower than sector average earnings growth. Important catalysts between now and the end of Q2 2007 include an FDA decision on 29th May on whether Cervarix is to be granted a fast-track status, and Phase III data for Tykerb in inflammatory breast cancer between 1st and 6th June.

C&C
 Current: €12.25
 Target: €13.50
 P/E 07 17.94
 Div Yield 07 2.2%
 Next Results 31/08/07
BUY

Recent AC Nielsen market share data for the UK LAD market showed Magner's share of the LAD market increasing to 1.8% on a moving annual total basis in March from 1.7% in February. This keeps **C&C** on target to achieve its stated goal of a 2.5% market share by the end of February 2009, providing the basis for our current year eps forecast of 67.5c, and our 12 month price target of €13.50, based on 20x current year eps. The group also recently announced the sale of its soft drinks division to Britvic for €249.2m, representing the attractive exit multiple of 19.2x operating profit of €13m after central costs. With €150m of the proceeds being applied to increase the group's share buy-back programme, starting in June, from €150m to €300m, the disposal should be largely earnings neutral, and should provide more capital to fund the group's high growth cider business. The disposal also provides the strategic benefits of increased group focus on this growth opportunity, as well as making the business a potentially cleaner takeover target.

This Week's Calendar Events

EARNINGS: Tues (Vodafone, FY06), (Taylor Woodrow, EGM), Wed (Northern Foods, FY06), (Tullow Oil, AGM) Thur (Bol, FY06), (Greencore, FY06), (Alliance Boots, EGM), (Dell, Q1),

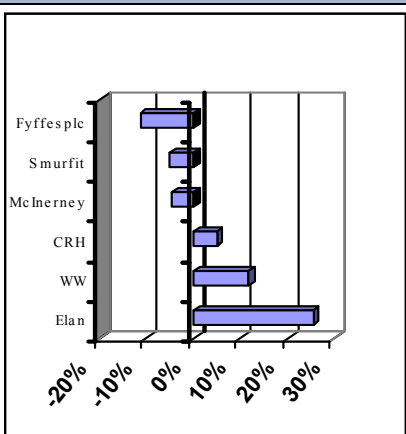
ECONOMIC DATA: Tuesday (US Consumer Confidence), Wednesday (Euro-Zone M3, US ADP Employment Change, Minutes of May 9th FOMC Meeting), Thursday (German Unemployment, US GDP, Core PCE, Chicago PMI), Friday (Euro-Zone GDP, US Nonfarm Payrolls, Pending Home Sales, Michigan Confidence).

DOLMEN STOCKBROKERS Traders Update

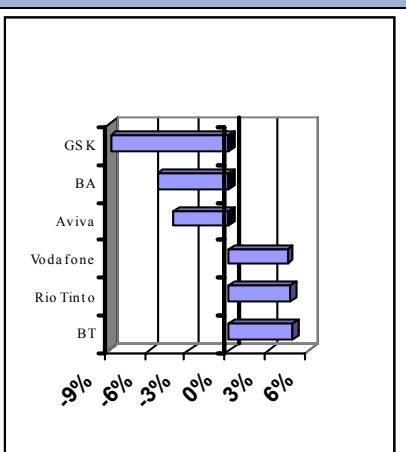
Last Weeks Best/ Worst Performers

18/5/07-25/5/07

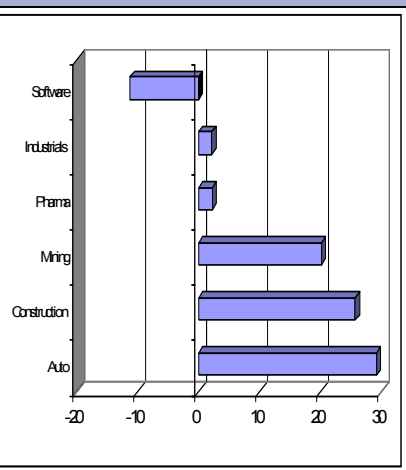
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen

WEEKLY UPDATE

COMPANY	QTD	YTD	RELEVANT NEWS
AIB (€22.60)	1.80%	0.44%	Ahead of its trading statement expected in the first/second week of June
Aviva (£8.02)	7.22%	-2.43%	Expects its Taiwan JV to break even in 4/5 years
BP (£5.68)	2.90%	0.18%	Looks set to lose its licence for the giant Kovykta gas field in Russia due to underproduction
B. Land (£14.20)	-7.07%	-17.15%	Reported a FY pretax profits of £1.44bn against £1.5 bn last year
C&C (€12.25)	7.74%	-8.92%	Recently announced the sale of its soft drinks business to Britvic for €249m
CRH (€36.19)	13.09%	14.74%	After US new home sales rose 16% compared to the same period last year
Greencore (€4.60)	0.00%	-1.71%	Ahead of its H1 results on the 31st of May
GSK (£13.34)	-4.51%	-0.74%	Share price weakness on rumour that Avandia drug increases the risk of heart attacks
Ladbrokes (£4.05)	0.75%	-3.11%	The recent trading statement reiterated its full year 2007 earnings forecasts
RBS (£6.43)	-2.72%	-3.16%	Expected to make an announcement re counter bid for ABN tomorrow
Ryanair (€5.35)	-8.23%	2.69%	The airline said that average fares for June may decline by as much as 10%
Vodafone (£1.51)	7.86%	<u>6.34%</u>	Ahead of its full year results due tomorrow

DD Unrealised gain YTD	2.37%	ISEQ YTD	5.01%
DD Realised gain YTD	2.71%	FTSE YTD	6.02%
DD Total YTD	5.08%	Average performance	5.52%
Relative performance YTD	-0.43%		

What it says in the 'Sundays'

- "CRH tops AIB as market value tops €20bn" **CRH - Sunday Business Post**
- "IAWS to refinance €186m debt in private placement" **IAWS - Sunday Business Post**
- "Smurfit backers eye stock sell off" **Smurfit Kappa - Sunday Times**
- "Group cashes in on its diversity" **DCC - Sunday Times**
- "Oil minnows appear tasty" **Various - Sunday Times**
- "Roaming cap fails to dent mobile share prices" **Vodafone - Sunday Independent**
- "Doubts raised over ICG bid" **ICG - Sunday Tribune**
- "Australian buyout rejected" **Independent News & Media - Sunday Tribune**

Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
C&C	-8.92%	9/5/2007	CEO Maurice Pratt said not to expect any news on the two test market until October. Upping their dividend payout ratio close to 50%.
Kingspan	10.86%	9/5/07	Finance Director Dermot Mulvihill told us that only 8% of group earnings are exposed to the Irish new housing market. A buoyant UK market more than offsets this.
Paddy Power	49.20%	2/5/07	Has twice the turnover per shop compared to Ladbrokes. Will not apply for UK casino licences.

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	9,915	2.55%	5.39%	1.75%	17.39
FTSE 100	6,571	-1.06%	5.62%	3.61%	16.58
DAX	7,739	1.71%	17.29%	2.77%	14.21
DJ	13,492	-0.38%	8.36%	2.12%	18.02
S&P 500	1,514	-0.46%	6.87%	1.77%	17.84
NASDAQ	2,553	-0.16%	5.76%	0.65%	38.18
DJ STOXX 50	3,907	-0.28%	5.63%	3.45%	15.54

Sector

	WEEKLY MOVE %	YTD MOVE %
Autos	1.82	29.21
Construction	-1.42	25.74
Mining	1.58	20.19
Chemicals	-0.21	16.39
Media	-1.49	14.22
Personal Goods	0.56	11.95
Technology	0.47	10.97
Tobacco	-1.06	10.52
Beverages	-0.48	7.26
Leisure Goods	-0.91	6.23
Food Producers	-1.89	5.72
General Retailers	-3.42	5.56
Utilities	0.28	5.41
Telecoms	3.45	5.39
Oil & Gas	-0.51	4.39
Banks	-1.79	3.29
Insurance	-0.76	2.72
Pharmaceuticals	-2.45	2.28
General Industrials	3.07	2.19
Software	-0.30	-11.24

Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$64.60	-0.58%
Gold Spot	\$655.55	2.76%

Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.3451	1.86%	1.35
EUR-GBP	0.6779	0.60%	0.665
EUR-JPY	163.73	4.01%	145

GDP Growth

	YEAR END 06	YEAR END07(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	YEAR END(E)
Ireland	3.75%	4.00%
Euro Zone	3.75%	4.00%
UK	5.50%	5.75%
US	5.25%	4.75%

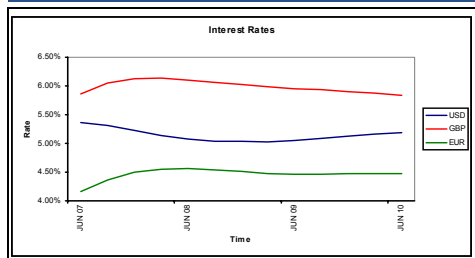
Credit Market Summary

Spreads tightened significantly in the first half of the week with the High Yield index bouncing off the 190bps barrier, a 9bps (5%) tightening. Thursdays sell-off in equity markets made credit investors nervous causing spreads to widen back to 193bps by Friday, representing a 3% tightening over the week. The investment grade index also tightened, 1bps (5%) over the week to close at 21bps, a new record low for the index

Sector Movements for week ended 25/5/07

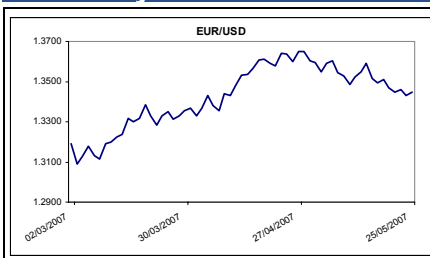
- Airlines:** The fight for Iberia isn't over yet, as news reports on Friday reported possible interest from a consortium comprising LHA, Air France and the private equity firm Apax Partners.
- Retail:** Spreads significantly tighter this week- MKS -5bps (15%); Boots -5bps (13%); Kingfisher -5bps (9%); Sainsbury -9bps (18%); Morrisons -4bps (7%). The lack of M & A chatter this week in the sector was a likely contributor to a reversal of the recent high volume activity in the sector, which had led spreads wider over the past 3 months
- Media:** EMI tighten this week despite reports of interest from another private equity bidder (Corvus). At the same time Warner Music has commented that it is not preparing a bid for EMI at present.

Interest Rate Outlook

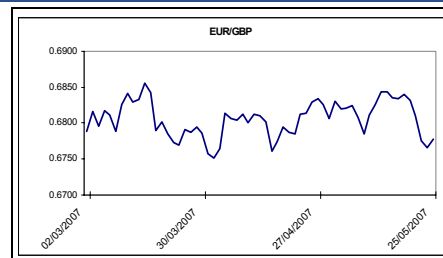


European bond markets continued their weakness last week pushing yields towards 4.40% level. Most of the move was on the back of strong US data but hawkish comments out of the ECB also lead to further selling. This week European markets will be focused on the raft of US data. With Yields pushing towards 4.40% level we begin to see value in taking a long bond position here.

Currency Comment



The USD remained supported against the Euro last week as US economic data suggested that the any interest rate cut out of the US will be in the Q4 at the earliest. This week traders will be focused on key economic releases including the jobs report on Friday. With so many different releases this week some volatility is expected however our bias remains for further weakness.



The Euro weakened last week against GBP as a key manufacturing report out of the UK came in stronger than expected. Traders are now speculating on 6% rates in the UK before the end of the year. There is not much in the way of data out of the UK this week and as such we expect GBP to remain supported with the 6750 level key.



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