

# Traders Update

MONDAY 30TH JULY 2007



## Brief Market Comment

The domino effect of the difficulties in the US sub-prime mortgage market reverberated throughout equity markets last week as investors sold equities in exchange for the safe haven of government bonds. Concerns over the exposure of banks and hedge funds to the sub-prime market either directly or indirectly through structured financial instruments was one of the main reasons for the sell-off but possibly of equal significance was an increase in the cost of debt funding which added to the cost of existing deals (e.g. Boots) but also called into question the ability of private equity to generate a suitable return on any future transactions. As M&A has been one of the key drivers of equity strength over the last few years, the prospect of one of the markets pillars of growth (the other has been buybacks) was distinctly unappealing to equity investors.

The difficulty for equity markets this week is that there will be no overnight solution to the sub-prime issue, so the current volatility is likely to continue. The biggest hope lies in the non-farm payroll data due for release on Friday which could partially ease investor concerns over the impact of sub-prime on the economy and the consumer.

## Preview of this week's major results

### Ryanair

Current:	€4.76
Target:	€6.00
P/E 07	16.41
Div Yield 07	0.00%
Next Event	31/07/07
Move on week	-4.56%

Tomorrow, **31st July, Ryanair** will announce its results for the 3 months ended 30/06/07. The consensus forecasts are for net profit and earnings per share of €124m and 8c respectively, both year on year increases of 7%. The growth will have been driven by strong passenger and ancillary revenue growth, offset by lower average fares. Given the major importance of the 3 months ending 30/09/07 to the airline's full year net profit, any further guidance for this quarter could be a potential positive catalyst for the share price. The airline's latest guidance is that for the year ending 31/03/08, its average fare could be "up to 5%" lower year on year at €41.91. Under such a worst case scenario, current year eps growth of only 5% to 27.3c would be generated. However, a more realistic scenario is that through a combination of full year yield erosion of 4% and the buying back and cancellation of 4% of the shares in issue, that a current year eps of 30c is achieved. This leaves the shares now trading at 15.9x current year eps, a significant discount to peer and historical average multiples, and a valuation, which does not fairly reflect the fact that the airline is still targeting a doubling of profitability within 5 years: **BUY**.

### Taylor Wimpey

Current:	£2.94
Target:	£4.35
P/E 07	7.73
Div Yield 07	5.10%
Next Event	31/07/07
Move on week	-11.85%

### BUY

Tomorrow, **31st July**, the UK's largest homebuilder, **Taylor Wimpey (TW)**, formed from the recent merger of Taylor Woodrow and George Wimpey, will announce its results for the 6 months ended 30/06/07. We are expecting combined group underlying profit before tax, eps and dividend per share of £300m, 20p and 5.1p respectively to be announced, even though given current fears surrounding the US and UK housing markets, more attention is likely to be focused on the group's guidance concerning the H2 performance of its operations in both markets. In this regard, a major distinction should be drawn between the weakness of some of the group's US housing markets, representing c.13% of 2007 group operating profit, and the healthy profitability of its UK housing operations, representing a much more important c.77% of group operating profit. Further details in relation to the merger's targeted synergies, as well as the distribution of surplus capital to shareholders are other potential positive catalysts for the share price. With the gearing of the new group only c.20%, it could return at least £500m to shareholders and still keep gearing below 65% and interest cover above 5x. TW is now trading at an 11% discount to its 2006 year end book value per share of £3.29, paying a current year dividend yield of 5.1%, and trading on 2007, 2008 and 2009 pe ratios of 8.2x, 7.2x and 6x respectively: **BUY**.

### AIB

Current:	€18.20
Target:	€24.50
P/E 07	8.97
Div Yield 07	3.95%
Next Event	01/08/07
Move on week	-9.23%

This Wednesday, **31st August, AIB** will announce its results for the 6 months ended 30/06/07. We are forecasting profit before tax and earnings per share of €1.22 bn and €1.06 respectively, year on year increases of 15% and 13%, as strong growth from the group's Polish, Irish and UK businesses more than offsets a slight decline in the contribution from its US associate. In the context of recent fears in relation to the Irish housing market, any new forward guidance or reassurance in this area could act as a positive catalyst for the share price. AIB is now trading at 9x consensus current year eps of €2.03, and is paying a current year dividend yield of 4.3%. For a bank likely to generate double digit earnings growth in 2007 and 2008, and generating a return on equity in excess of 20%, such valuations indicate that the share price has limited further downside risk: **BUY**.

### RBS

Current:	£5.69
Target:	£7.20
P/E 07	7.82
Div Yield 07	5.90%
Next Event	03/08/07
Move on week	-6.80%

This Friday, **3rd August, Royal Bank of Scotland (RBS)** will announce its results for the 6 months ended 30/06/07. The consensus forecast is for profit before tax £5.044 bn, representing year on year growth of 10%, with an extra effort likely to be made in the results' announcement and accompanying presentation to provide strong reassurance with regard to the bank's US mortgage market exposure, particularly given the upcoming placing of new equity to help fund the ABN acquisition. RBS' US mortgage exposure is 100% prime and 99% secured. Another area where the facts should be better than the fears is with regard to the group's UK flooding exposure through its general insurance division, Direct Line. Recent peer results and trading statements would indicate that the bank's wholesale and UK unsecured performances are likely to demonstrate further improvements. RBS currently trades at 7.9x consensus 2007 eps of 72p, and is paying a current year dividend yield of c.6.0%: **BUY**.

### British Airways

Current:	£3.90
Target:	£6.00
P/E 07	7.36
Div Yield 07	0.00%
Next Event	03/08/07

This Friday, **3rd August, British Airways (BA)** will announce its results for the 3 months ended 30/06/07. We are forecasting operating profit and earnings per share of £225m and 13.9p respectively, year on year increases of 9% and 6%. The growth will have been driven by lower personnel and fuel costs, offset by a c.2% decline in passenger yields, leaving the airline on course for its targeted 10% operating margin. Given that the major driver of BA's current year earnings growth is expected to be premium and long-haul passenger growth, the airline is somewhat protected from the substantial amount of new short-haul capacity and routes which Ryanair has launched in recent months. Despite the prospects for 69% earnings growth this year, BA is now trading at 7.4x eps of 53p for the year ending 31/03/08: **BUY**.

Peers of major Irish companies reporting this week: **C&C** (SabMiller, Tu), (Scottish & Newcastle, Wed), **Paddy Power** (William Hill, Th), **Grafton/McInerney** (Taylor Wimpey, Tu), (Travis Perkins, Wed), **CRH** (Hanson, Wed), (LaFarge, Th), **Ryanair/AerLingus** (British Airways, Fri)

**EARNINGS:** MON (ABM Amro, Q2), (HSBC, H1), (Pearson, H1), TUES (Ryanair, Q1), (Lloyds, H1), (SabMiller, Q1), (Taylor Wimpey, H1), WED (AIB, H1), (Deutsche Bank, H1), (Sanofi Aventis, H1), (HBOS, H1), (Prudential, Q2), (Scottish & Newcastle, H1), THURS (Nokia, Q2), (Lafarge, H1), (Barclays, H1), (ICI, H1), (Rio Tinto, H1), (Smith & Nephew, H1), (William Hill, H1) FRI (Tomkins, H1), (Allianz, Q2), (BA, Q1), (RBS, H1)

**ECONOMIC DATA:** Mon (UK M4 Money Supply), Tues (Euro-Zone Confidence Indicators, US Personal Income & Spending, PCE Core Inflation, Construction Spending), Wed (US ADP Employment, ISM Manufacturing), Thurs (BoE & ECB Interest Rate Decisions, US Factory Orders) Fri (US Nonfarm Payrolls, ISM Non-Manufacturing)

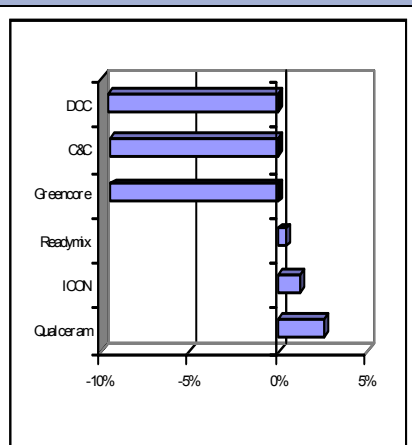
This Week's  
Calendar Events

# DOLMEN STOCKBROKERS Traders Update

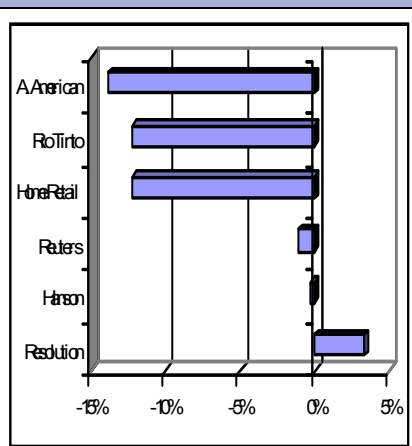
## Last Weeks Best/ Worst Performers

23/07/07-30/07/07

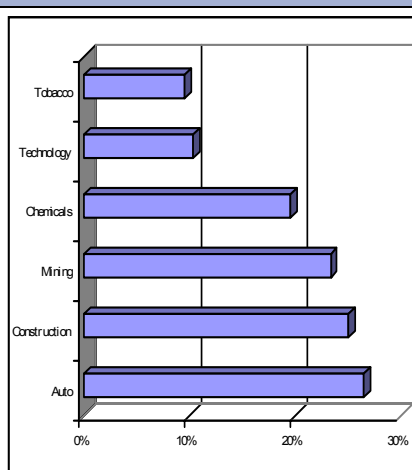
### ISEQ



### FTSE



### Sector changes YTD



## Dolmen Dozen

### WEEKLY UPDATE

COMPANY	CLOSE	WTD	DD RETURN*	RELEVANT NEWS
AIB	18.20	-9.23%	-19.31%	Ahead of the group's interim results due on August 1st
Aviva	6.70	-9.40%	-15.62%	Bear Stearns resumed coverage of the insurer at outperform
BP	5.73	-4.42%	3.94%	Reported second quarter net profit that rose by 1.5% to \$7.38bn
B.Land	12.12	-10.62%	-27.62%	Ahead of the group's first quarter results due on August 16th
C&C	7.91	-9.50%	-23.18%	Continues its share buyback program
CRH	32.00	-8.31%	4.05%	Pressured on continuing concerns on fallout from US Subprime mortgage market
GNC	4.98	-9.45%	11.63%	Greencore is subject to ongoing takeover speculation
GSK	12.25	-4.15%	-6.77%	Reported second quarter net profit that rose by 1.4% to £1.33bn
LAD	4.07	-6.86%	1.10%	JPMorgan raised the group's price target to 480p from 460p
RBS	5.69	-6.72%	-10.62%	ABN Amro has withdrawn support for Barclays bid for the company
Ryanair	4.76	-4.23%	-10.61%	Ahead of the group's 1Q results due on the 31st July 2007
Vodafone	1.51	-6.09%	11.56%	Credit Suisse upgraded its rating on the stock to outperform from neutral

DD Unrealised gain YTD	-6.97%	ISEQ YTD	-11.14%
DD Realised gain YTD	2.71%	FTSE YTD	0.59%
DD Total YTD	-4.26%	Average performance	-5.27%
Relative performance YTD	1.02%		

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

### What it says in the 'Sundays'

- "BOI forecasts a fall-off in new mortgages" **BOI - Sunday Business Post**
- "Global credit crunch leads to fresh pain for Investors" - **Sunday Business Post**
- "Morgan Stanley increases its C&C share despite loss" **C&C - Sunday Business Post**
- "Carroll drops anchor in ICG' unsettled waters" **ICG - Sunday Business Post**
- "Flavin faces pressure to step down" **DCC - Sunday Times**
- "Some animal food for thought" **Origin - Sunday Times**
- "Elan 'still has potential'" **Elan - Sunday Times**
- "ISEQ now worlds worst performer" **ISEQ - Sunday Independent**
- "Credit crunch may sink ICG deal" **ICG- Sunday Tribune**
- "FDA adds to Elans woes" **Elan- Sunday Tribune**

### Recent Corporate Visits

COMPANY	CHANGE ON YEAR	MEETING DATE	RELEVANT NEWS
Metro Baltic	-5.96%	13/07/2007	James Kenny re-iterated that the company has now has fully invested 95% of the funds raised. He also stated that going forward the company will concentrate on St. Petersburg.
Bank of Ireland	-21.71%	22/06/07	CFO J O'Donovan re-iterated that the only 10% of the groups PBT comes from Irish mortgages and he expects loan book growth of 15% for next year
Glanbia	33.45%	18/06/2007	Deputy Group Managing Director Geoff Meagher re-iterated recent guidance of double digit eps growth for 2007.

# Last Weeks Moves

## Equities

	Level	Change WTD	Change YTD	Dividend Yield	P/E
ISEQ	8357	-7.42%	-11.17%	2.17%	13.37
FTSE 100	6215	-5.62%	-0.09%	3.81%	12.94
DAX	7452	-5.37%	12.96%	2.62%	13.22
D J INDUS. AVG	13319	-3.72%	7.00%	2.14%	17.56
S&P 500	1465	-4.35%	3.47%	1.85%	17.08
NASDAQ	2568	-4.16%	6.64%	0.71%	36.93
DJ STOXX 50	3720	-4.85%	0.63%	3.60%	12.79
NIKKEI 225	17284	-4.81%	0.34%	1.12%	36.39

## Sector

	WEEKLY MOVE %	YTD MOVE %
Automobiles & Parts	-3.88	26.43
Construction & Materials	-2.00	25.04
Mining	-10.08	23.28
Chemicals	-6.65	19.48
Technology Hardware & Equipment	-3.12	10.40
Tobacco	-3.39	9.54
Media	-4.49	6.33
Personal Goods	-0.83	5.02
Oil & Gas Producers	-5.45	4.81
Beverages	-5.13	3.10
Leisure Goods	-6.81	2.94
Food Producers	-4.42	-0.77
Telecommunications	-4.53	-0.94
Pharmaceuticals & Biotechnology	-3.89	-4.24
Gas, Water & Multiutilities	-4.77	-4.65
Banks	-4.61	-6.51
General Industrials	-6.22	-8.18
Insurance	-2.79	-8.26
Software & Computer Services	-2.92	-9.45
General Retailers	-6.90	-10.27

## Commodities

	CURRENT	YTD CHANGE
Crude Oil	\$75.80	15.07%
Gold Spot	\$658.30	3.53%

## Exchange Rates

	CURRENT	YTD CHANGE	YEAR END(E)
EUR-USD	1.363	3.25%	1.35
EUR-GBP	0.673	-0.11%	0.665
EUR-JPY	161.76	3.00%	145.00

## GDP Growth

	YEAR END 06	YEAR END07(E)
Ireland	6.00%	5.00%
Euro Zone	2.70%	2.50%
UK	3.00%	3.00%
US	2.60%	2.10%

## Central Bank Interest Rates

	CURRENT	YEAR END(E)
Euro Zone	4.00%	4.00%
UK	5.75%	6.00%
US	5.25%	5.25%

## Credit Market Summary

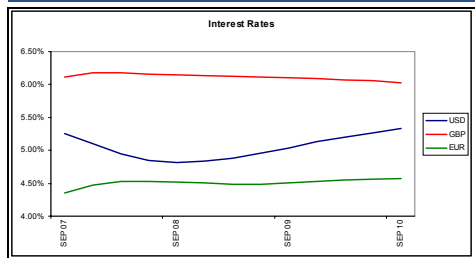
A tumultuous week in the credit markets driven by rising concern that banks and hedge funds face widening losses from their exposure to the US subprime market and LBO's. Major credit events were the announcement by an Australian hedge fund that it was suspending withdrawals from two of its funds given concerns over subprime losses and the failure of underwriting banks to sell debt in support of KKR's buyout of the Boots and Cerberus Capital's buyout of Chrysler. The ITRAXX credit indices reached record highs on Friday - the investment grade index widened 87% in the week while the HY was 48% wider. The rising nervousness in the credit markets finally spilled into the equity markets as global stock markets tumbled on fears of a corporate debt meltdown.

## Credit Sector Movements for week ended 27/07/07

**Retail:** Cadbury's spreads widened 28% as the group extended the timeframe for bids for its US drinks business which includes brands such as Snapple and 7-Up due to debt market volatility. Private equity remains the most likely purchaser but the final sale price is now expected to be less than the \$15bn initially expected given the increased pricing now demanded by debt investors. Sainsbury's tightened 10% as a takeover by Qatari investment fund Delta Two became increasingly likely after 10% stakeholder Robert Tchenguiz announced that he would support the bid if the board approved the deal.

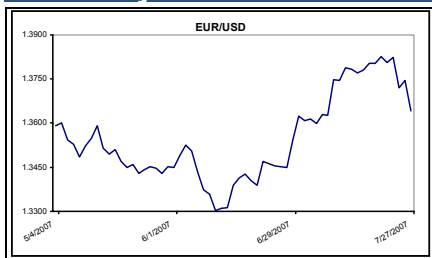
**Media:** EMI widened 43% as investors feared that Terra Firma may now be forced to abandon its takeover of the company following difficulties experienced by the private equity firm in obtaining finance to fund the deal in the volatile credit markets.

## Interest Rate Outlook

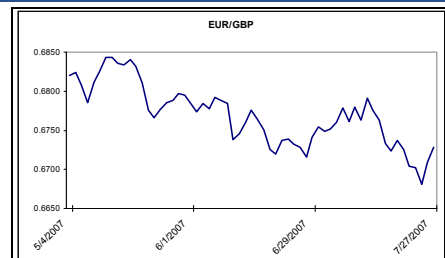


The flight to quality continued last week sending government bond prices higher. The yield on the US 10-year treasury fell by 17 basis points over the week to 4.78%, while German 10-year bund yields fell by 12 basis points to 4.32%. Yields could fall further this week if concerns over the quality of credit markets persist.

## Currency Comment



The Euro rose to a record high against the \$ last week to \$1.3852 as fears over credit markets and the subprime mortgage market put pressure on the \$. The main focus for the \$ this week will be on Core PCE Inflation data which is due on Tuesday, while Non-farm payrolls data is set for release on Friday.



The Euro is likely to trade within a tight range with Sterling this week with the main focus on Thursday where both the ECB and Bank of England are expected to keep rates on hold at 4.00% and 5.75% respectively.



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## DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.  
45 South Mall, Cork, Ireland  
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300  
Tel : +353 21 422 2122  
Tel : +353 61 436 500

E-mail: [info@dsl.ie](mailto:info@dsl.ie)  
E-mail: [cork@dsl.ie](mailto:cork@dsl.ie)  
E-mail: [Limerick@dsl.ie](mailto:Limerick@dsl.ie)