

Market Comment

The witching hour is close at hand. Wednesday sees the decision by the Federal Reserve on US interest rates with the markets fully pricing in a further 25 basis point cut to 4.50%, however with continued woes in the banking sector being highlighted by a bigger than anticipated write-off from Merrill Lynch, a larger than expected rise in weekly jobless claims along with a further deterioration in the housing market, some market participants are talking about a 50 basis point cut. While not impossible, we believe this to be highly improbable, as such a move at a time when oil is trading above \$90 and the dollar approaching 1.44 against the euro could spell very bad news on the inflation front. Equity markets are now making a very clear statement regarding sector allocation: earnings certainty in sectors such as telecoms and technology are being preferred over those with earnings uncertainty such as financials, while the commodity related stocks continue to benefit from higher oil and strong Chinese growth. Whether these sectors can continue to propel equity markets higher remains to be seen. What will more likely determine this is not only the Fed, but also the raft of data due for release this week covering housing, employment, inflation and manufacturing, all key barometers for future economic trends.

TRADING IDEAS, EARNINGS & PREVIEWS

BoI

Current : €12.32
P/E 07 : 7.7x
Div 07 : 5.5%
Next Event : 14/11/07
Price Target : €17.50

BUY

Given the current bank sector liquidity concerns, the €400m of Tier 1 capital successfully raised by **Bank of Ireland (BOI)** last week is worth noting. €380m (Aaa) was raised at the competitive price of 3 month Euribor +0.75% and €20m (Baa1) was raised at 3 month Euribor +3.09%. The new debt raised was secured on the future profits of the group's life business, and due to the reclassification of value in force insurance contracts from Tier 2 to Tier 1, the group's Tier 1 ratio will be increased by 0.3% to c.8.2%. BOI's results for the 6 months ended 30/09/07 will be announced tomorrow fortnight, 14th November. Underlying eps growth of 13% to 82.5c is expected, keeping the group on course to report a full year eps of €1.60, representing year on year growth of 11%. Credit quality across the group remains excellent, with the annualised loan loss charge as a percentage of average loans expected to be in the "low double-digit" basis points range for H1. Despite continuing to generate double digit earnings growth this year, BOI is trading at only 7.7x current year eps of €1.60, and is paying a current year dividend yield of c.5.5%

CRH

Current : €27.49
P/E 07 : 10.65x
Div 07 : 2.3%
Next Event : 4/01/08
Price Target : €40.00

BUY

CRH peers, Cemex and Vulcan Materials, have both reported Q3 results in recent days. Even though Vulcan Materials guided a full year decline in aggregate volumes of between 9% and 10%, driven by weak residential construction activity, its earnings are much more exposed to US residential weakness than CRH, particularly as a result of its sizeable operations in the Florida region. Vulcan confirmed that its aggregate prices rose by 12% in Q3, and are guided to increase by c.13% for the full year. Cemex's Q3 results showed that solid volume growth is being achieved outside of the US residential sector, with cement, ready-mix and aggregate volumes increasing by 3%, 22% and 62% respectively. CRH recently confirmed that it has the debt capacity to finance any acquisition of the US and European assets of Mexican cement maker, Cemex, currently under negotiation. Only c.8% of its total group operating profit is exposed to US new housing, and our current 12 month share price target of €40 is based on 14.3x 2008 eps of €2.80

BA

Current : £4.35
P/E 07 : 8.5x
Div 07 : 2.9%
Next Event : 02/11/07
Price Target : £6.00

BUY

Last week, **British Airways (BA)** announced that it had secured c.£1.7 bn of debt financing for aircraft to be delivered over the next 5 years. Given the recent credit market turmoil, it is worth noting that there were no fundamental differences in price or structure compared to previous fleet financings. BA regained its investment-grade ratings status on 20th June when rating agency S&P upgraded its credit rating to BBB-. 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 55% earnings growth this year, BA is still trading at 8.5x eps of 51p for the year ending 31/03/08, and the airline is also expected to resume paying a dividend of 12.4p this year, representing a yield of 2.9% on the current share price. Given the seasonally strong period to which they refer, the airline's Q2 results' announcement this Friday, 2nd November, could act as a positive catalyst for the share price

Microsoft

Current : \$34.57
P/E 08 : 19.3x
Div 08 : 1.35%
Next Event : 24/01/08
Price Target : \$40.00

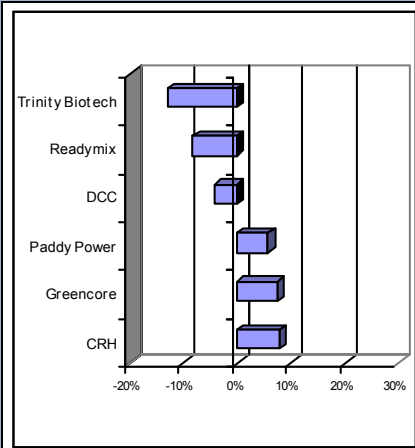
BUY

Last Thursday, Microsoft released results for its first quarter of 2008 that came in well ahead of expectations and also raised its full-year 2008 guidance. The group reported EPS that rose by 29% to \$0.45, while revenue showed a 27% increase to \$13.8bn. Microsoft raised its EPS guidance for the year ending 30/06/08 to \$1.78-\$1.81 from \$1.69-\$1.73, while it now sees the top end of its revenue forecast at \$59.7bn, nearly \$1bn more than its previous estimate. What is most reassuring about Microsoft's results is that strong growth was seen across all of its divisions. The group's two largest units, Microsoft Business and Client both posted sales growth in excess of 20% driven by robust demand Windows Vista and Server. Microsoft's Entertainment division also swung to an operating profit during the quarter due to strong Xbox and 'Halo3' sales. While Microsoft's shares have had a good run over the last month, we still believe at current levels the stock represents a good buying opportunity. Two other tech names that we also like ahead of results are PC makers **Hewlett Packard (Q4 19/11/07) & Dell (Q3 29/11/07)**. Strong results from both Microsoft and Intel indicate that demand for PC's and notebooks is strong a point that was also reiterated by research firm Gartner last week as it raised its forecast for worldwide PC sales to 10.2% from 9.9% previously.

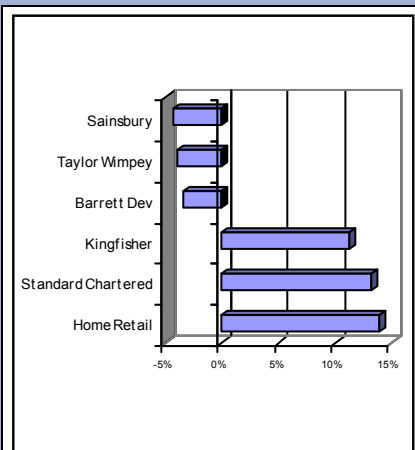
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/ Worst Performers 22/10/07-26/10/07

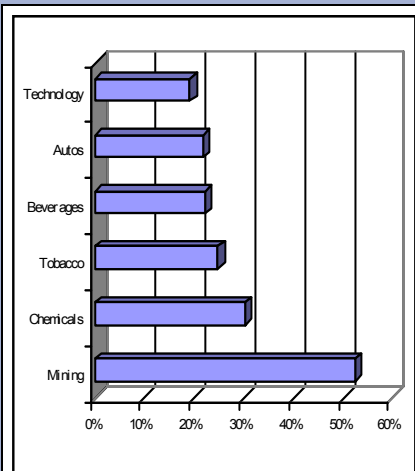
ISEQ



FTSE



Sector changes YTD



Dolmen Dozen WEEKLY UPDATE

Company	WTD	DD Return*	Relevant news
AIB	+0.4%	-23.9%	M&T bank announced Q3 results with eps of \$1.92 c.1% below market consensus forecast of \$1.94
Aviva	+4.6%	-4.9%	Aviva is aiming to cut costs by £350m by the end of 09 in a move that could lead to further job cuts
BP	+2.9%	+17.7%	Announced results last week with underlying replacement cost net profit 2% ahead of consensus
CRH	+5.2%	-11.09%	Following the announcement of quarterly results from Cemex and Vulcan materials in the last week
Greencore	+4.9%	+4.8%	Issued an upbeat trading statement and said that full-year earnings will beat analyst expectations
GSK	-8.3%	-4.0%	Announced Q3 results last Wednesday with EPS of 23.7p, c.1% below consensus forecasts
IL&P	+5.5%	-10.4%	Continued weakness due to its large exposure to the Irish housing market
Ladbrokes	+2.7%	+7.2%	Partygaming and 888 both posted strong quarterly results
RBS	-0.4%	-16.8%	Its offer for ABN has gone unconditional
Ryanair	+1.8%	+3.3%	Ryanair agreed a 4-year pay deal with its Dublin pilots
SAP	-1.9%	-11.2%	Announced that it will not bid for BAE systems following Oracle withdrawal last week
Vodafone	+10.9%	+41.73%	Was subject to further positive brokers comments during the week

DD Unrealised gain YTD	-0.02%	ISEQ YTD	-16.72%
DD Realised gain YTD	-2.78%	FTSE YTD	9.25%
DD Total YTD	<u>-2.80%</u>	Average performance	<u>-3.78%</u>
Relative Performance		<u>0.94%</u>	

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

What it says in the 'Sundays'

Company	Paper	Headline
ICG	Sunday Business Post	"Rothwell may join Carroll in ICG fight"
BoI	Sunday Business Post	"BOI and Unions agree on pension reform"
Northern Rock Funds	Sunday Times	"US financial giant to back Rock bid"
Tullow Oil	Sunday Times	"Alarming power of the sovereign funds"
Tullow Oil	Sunday Independent	"Tullow's mixed bag in Uganda"
Standard Chartered	Sunday Tribune	"Engaged in 'bidding war' for Resolution"

Recent Corporate Visits

Company	Change on year	Meeting date	Relevant news
IAWS	-18.5%	28/09/07	CEO Owen Cillian said that the company will be force to put through food price increases
Irish Life	-25.9%	11/09/07	Irish life told us that the recent turmoil in credit markets will only have a modest impact on margins
FBD	-32.4%	07/09/07	FBD's CEO Philip Fitzsimons told us that he expects the group to increase its share of the Dublin motor insurance market.

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Div Yield	P/E
ISEQ	7850	+0.8%	-16.6%	2.4%	11.51
FTSE	6661	+2.0%	+7.1%	3.5%	12.64
DAX	7948	+0.8%	+20.4%	2.5%	13.99
DOW JONES	13725	+1.5%	+10.1%	2.1%	15.79
S&P 500	1524	+1.6%	+7.5%	1.8%	16.46
NASDAQ	2787	+2.3%	+15.4%	0.7%	28.84
EUROSTOXX 50	3844	+0.6%	+4.0%	3.5%	12.44
NIKKEI 225	16506	-1.8%	-4.2%	1.2%	32.37

Sector

	Weekly move%	YTD move %
Mining	+0.5	+52.5
Chemicals	+0.3	+30.4
Tobacco	+1.9	+24.8
Beverages	-0.8	+22.1
Autos	+4.6	+21.9
Technology	+3.0	+19.1
Telecoms	+5.9	+18.8
Personal Goods	-1.4	+13.9
Oil & Gas	+1.0	+11.6
Construction	+2.4	+8.5
Utilities	+1.9	+7.3
Media	+0.3	+4.3
General Industrials	+1.7	+2.6
Food Producers	-2.0	+1.7
Leisure Goods	-2.3	+0.4
Insurance	+0.6	-1.9
Pharmaceuticals	-1.2	-6.2
Software	-0.1	-9.3
General Retailers	+6.3	-10.1
Banks	+0.5	-14.1

Commodities

	Current	Change YTD
Crude Oil	\$91.53	+36.9%
Gold spot	\$779.5	+22.4%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.439	+8.2%	1.35
EUR-GBP	0.701	+3.9%	0.665
EUR-JPY	164.2	+4.3%	145.0

GDP Growth

	Current	Year End (est)
Ireland	6.00%	5.00%
Euro Zone	2.70%	2.50%
UK	3.00%	3.00%

Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.61%	4.00%
UK	5.75%	6.28%	6.00%
US	4.75%	4.95%	4.75%

Credit Market Summary

High yield spreads ended the week 11bps wider at 326bps. Spreads saw 6 consecutive days of spread widening which ended Monday as credit investors began to track equity markets. While nervousness persists, particularly with respect to financial institutions, the poor US macro data this week has spurred hopes of a Fed rate cut and as a consequence the potential for spread widening is rather limited. Ahead of next week's FOMC meeting there is likely to be little strategic positioning, as investors await the Fed rate decision.

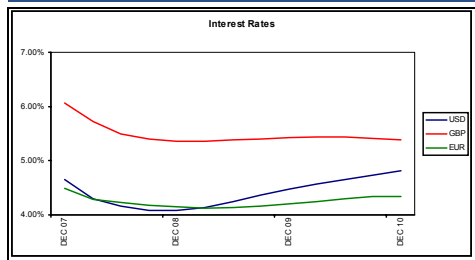
Credit Sector Movements

Airlines: British Airways widened 3bps (2.5%) this week after the company announced a \$1.7b long term debt facility, to finance aircraft purchases in the next 5 years – while the additional debt indicates debt market support for BA, especially during the current difficult debt markets, it is an additional debt burden for the company.

Food/Beverages: Diageo spreads moved marginally tighter despite issuing €1.5b in new bonds this week however the fact that Diageo debt was issued is seen as a positive in the current difficult debt markets.

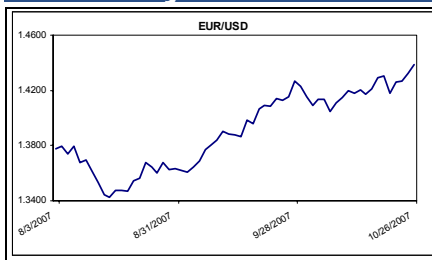
Retail: Sainsbury tightened 2bps despite reports that Delta (Two), the Qatari investment fund, is seeking an additional £500m cash for investors for the purchase, thereby casting doubt on the purchase in the current markets

Interest Rate Outlook

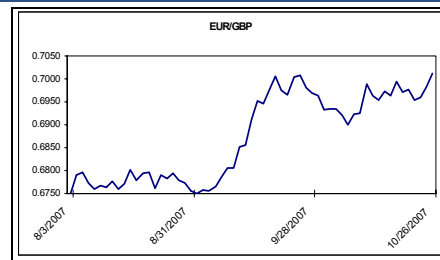


The yield on the US 10-year treasury was broadly flat on the week at 4.40% ahead of the Fed's interest rate decision due on Wednesday where it is expected to reduce its benchmark rate by 0.25% to 4.50%. The yield on the 10-year German bund fell by 5 basis points to 4.17% over the week.

Currency Comment



The \$ fell to a record low against the € to finish the week at \$1.439/€ on mounting expectations that the Fed will lower rates by 25 basis points to 4.50% on Wednesday. Data released last week showed that the slump in the US housing market shows no signs of abating with existing home sales for September falling by 8%.



The € strengthened against £ last week to finish the week above £0.70/€ following a report that UK house prices fell for the first time in two years in October, while mortgage approvals fell to a 26-month low.



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