DOLMEN STOCKBROKERS
Traders Update

MARKET COMMENT TUESDAY 3RD JUNE 2008

In a holiday-shortened week for the UK and US markets equities moved modestly higher, but a feature of each trading day in the last week was that having traded higher on a daily basis, the closing levels were off these intra-day highs. This inability to maintain an upward momentum was particularly disappointing given the fact that oil prices retreated from the $135 level to $125, and that US revised Q1 GDP and Durable Goods readings came in better than expected. The fundamental issues for markets remain however- US house prices show no sign of reversing their decline, inflation readings remain at elevated levels and the on-going tapping of the market by the banking sector is being met with less enthusiasm by investors as fears increase that further write-down might be necessary. The over-riding concern for markets continues to be inflation, with Euro-Zone inflation hitting 3.6% and an array of recent PPI readings suggesting that input costs continue to rise which could hit corporate profitability in the coming quarters. This while light on corporate releases is a busy one for economic data with Non-Farm Payrolls on Friday the main focus. Of greater significance however could be the ECB meeting on Thursday which could see a more hawkish tone on interest rates. In a slower growth environment that is not good news for equities.

TRADING IDEAS, EARNINGS & PREVIEWS

Ryanair :

Price: €2.70
P/E: 9x
Target: €4.50

BUY

Fundamental View : This morning, **Ryanair** announced underlying diluted eps of 31.5c for the year ended 31/03/08, c.2% ahead of the consensus forecast of 31c, and a year on year increase of 22%. The underlying result excludes a €10.6m after tax gain from the disposal of 5 aircraft, accelerated depreciation after tax of €9.3m and a €91.5m write-down of the Aer Lingus stake. The slightly better than expected underlying result was driven by a higher than expected Q4 average fare, which was 1.6% higher year on year, versus previous company guidance for 5% lower.

Next Catalyst : The airline has issued conservative guidance for the next 12 months of "breakeven", despite expecting average fares to increase by 5%. This is based on the assumption that $130 per barrel is paid for fuel. However, with the airline's average fare very low at €43.70, if oil does remain at this level, it may be more realistic to expect the average fare to increase by 10%, given that it increased by 5% in the airline's seasonally weakest quarter, Q4. Every 1% increase in the average fare adds c.2c to eps and every $1 per barrel above $130 reduces eps by c.1c. **BUY on weakness**

Chart View : Short-term support comes in at €2.70 and more important support comes in at €2.50. Stock looks set to continue range trading in the near-term.

Sterling Energy

Price: 13.50p
Target: 21p

BUY

Fundamental View : Given the current very high oil and gas prices, last week we spoke to the Deputy Chairman of **Sterling Energy**, Harry Wison, to clarify what drilling activity could be expected over the coming months. The major recent development was the group's decison to sell its US business, considered timely as a result of the current high US gas price. This should raise at least $250m, which would transform the current net debt position of c.$150m into a net cash position of c.$100m, or c.3p per share. Previously, using very conservative oil price assumptions, we had estimated the combined value of Sterling Energy's existing 8% Chinguetti holding, its 5.28% Tiof royalty, its Tevet royalty and its Banda gas royalty in Mauritania at £162m, or c.10p per share, and its additional exploration licences at Kurdistan, Madagascar, Gabon, Guinea, Bissau and Cameroon at £65m, or c.4p per share.

Next Catalyst : Petronas, the new operator of the group's key Chinguetti field, offshore Mauritania, recently started a 60 day workover programme, which will involve 3 well workover wells and 3 re-entry wells. Any progress achieved in expanding this field's recoverable reserves would act as a positive share price catalyst. By the end of June, Sterling will also drill the Charlie prospect in Gabon which on its own could justify further c.4p upside, providing the basis for our current 12 month share price target of 21p. With the data room for the group's US business expected to be open in c.2 weeks time, the announcement of a successful transaction by September could be another major positive share price catalyst. Sterling Energy is due to hold its AGM this Friday, 6th June

Chart View : Following significant gains on strong volume the stock is showing some healthy consolidation. No reason why the stock cannot trade higher following this consolidation.

Microsoft

Price: $27.80
P/E: 12.7x
Div: 1.4%
Target : $40

BUY

Fundamental View : **Microsoft's** shares have underperformed the market since it announced its $44.6bn takeover approach of Yahoo in February. While Microsoft has since formally withdrawn its approach (after Yahoo rejected a slightly higher offer) it still remains in talks with Yahoo over a partnership. While the Yahoo saga has weighed on Microsoft's share price, its underlying business performance has remained very strong. Microsoft is currently trading at 15x forward earnings a level not seen since May 2002 despite the group been on track to deliver earnings growth of 26% this year. Recent strong earnings results from PC makers Hewlett-Packard and Dell can be taken as a significant positive read across for Microsoft

Next Catalyst : The next catalyst for Microsoft will be on 17/07/08 when the group is due to report its fourth quarter results. We expect Microsoft to again report a solid set of earnings boosted by its international presence and diversified product offering.

Chart View: Stock has struggled to sustain a break of the important $30 level but solid support in the $27-$28 area should see buyers come in.

BMW

Price: €36.50
P/E: 9.02x
Div: 3.15%
Target: €33

SHORT

Fundamental View : Our short trading call on **BMW** has worked well for us over the last six months and given that shares in BMW have risen by over 7% in the past two weeks we feel now represents a good time to reinitiate our short trading call on the stock again. We believe that BMW is one of the most exposed auto markers to the current economic slowdown given that it operates primarily in the luxury end of the autos market. BMW also generates 25% of its revenue in the US where auto sales have been particularly weak. On an EV/EBITDA basis, BMW trades at a premium to its peer group at 5.4x versus 4.6x for the sector, a premium that we feel is undeserved in the current economic environment.

Next Catalyst : The next catalyst for BMW is on 5/08/08 when the group is due to report its second quarter results, while later on today US auto sales for May will be released and we expect further declines to materialise.

Chart View : Stock has failed to sustain an upside break out of its 4 month trading range and a resumption of weakness is expected.

Thomson Reuters

Price: 1590p
P/E: 19.45x
Div: 3.37%
Target: 1300p

SHORT

Fundamental View : On 01/05/08, the newly merged **Thomson Reuters** reported a strong set of first quarter results and also reiterated its 6%-8% revenue growth target for its 2008 financial year. While the results were impressive we feel that Thomson Reuters is particularly susceptible to the slowdown in the financial services sector where it generates 60% of its revenue. With further jobs cuts at investment banks on the way, we believe the group's earnings outlook could deteriorate. At 18x forward earnings we feel that the shares look expensive in the current economic environment

Next Catalyst : The next catalyst for Thomson Reuters is on 12/08/08 when the group is due to report its second quarter results. We believe that the group will issue cautious guidance for the rest of the year given its exposure to financial services companies.

Chart View : Stock is drifting sideways with fading momentum and there is little upside potential in this stock.

Earnings Week Ahead

Tues: (Ryanair, FY) (United Utilities, FY) (Bouygues, Q1) (General Motors, sales)

Wed: (Aminex, AGM) (Kingfisher, Q1) (Vallourec, AGM) (British Airways, Traffic) (Sportingbet, Q3) (Wolfson Microelectronics, AGM)

Thurs: (Blackrock, AGM) (Severn Trent, Prelim) (WM Morrison, MS) (Air Berlin, Traffic) JC Penny, Sales) (Wal-Mart, Sales) (Macy's, Sales) (Del Monte, Sales)

Fri: (AerLingus, AGM) (Freddie Mac, Shareholders) (EasyJet, Traffic) (Signet, Q1)

Economic Week Ahead

Tues: Euro-Zone GDP (10.00), PPI (10.00), US Factory Orders (15.00)

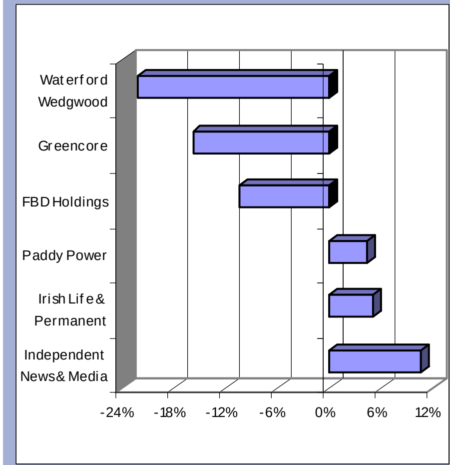
Wed: Euro-Retail sales (10.00), US ADP Employment (13.30), Labor Productivity (13.30), ISM Services (15.00)

Thurs: BoE Interest Rate Announcement (12.00), ECB Interest Rate Announcement (12.45), US Weekly Jobless Claims (13.30)

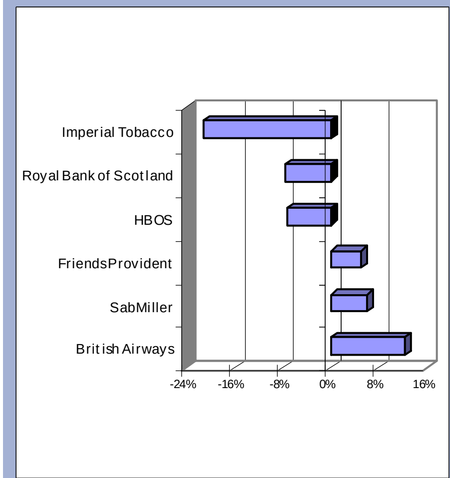
Friday: US Nonfarm payrolls (13.30)

Last Weeks Best/ Worst Performers
26/05/08-30/05/08

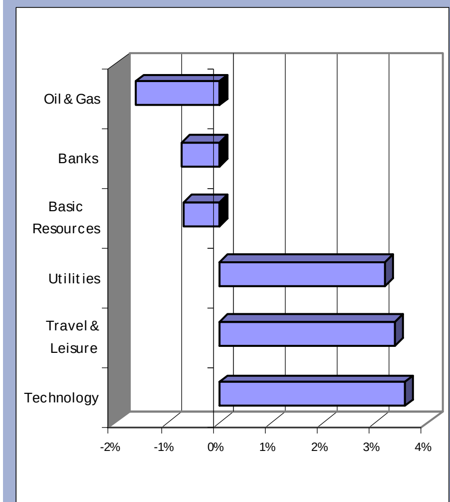
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen
WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-1.3%	-20.59%	AIB sales £700m subordinated bond due 2023..
Aviva	-2.9%	-7.58%	Aviva's dutch joint venture with ABN AMRO ends.
BP	-3.5%	2.44%	BP says no impact from shareholder row.
IN&M	11.1%	-2.91%	IN&M announces it will purchase 20% of Abdi Bangsa, a leading Indonesian media group.
CRH	0%	-0.63%	A Portugese peer of CRH, Cimpor, reports a 14% decline in Q1 pre tax profits.
Hewlett Packard	4.7%	-8.38%	Dell's first quarter profits up 3.7% on shipment gains.
IAWS	-0.4%	3.85%	IAWS report that revenues rose 34.7% for the nine months ended April 26th.
IL&P	5.3%	-10.50%	Irish house prices fell 9.2% on the year in April, the ERSI and Permanent TSB say.
Microsoft	-1.0%	-21.91%	Yahoo's CEO, Jerry Yang, says Microsoft appear to be no longer interested in a full merger.
Paddy Power	3.8%	2.84%	Paddy Power has bought private Northern Ireland betting chain McGranaghan for £19m.
Ryanair	-3.8%	-42.97%	Ryanair posts 10% drop in fiscal 2008 net profit, but is ahead of expectations.
Vodafone	-0.6%	-14.46%	Vodafone posts a £6.7bn net profit compared with a loss a year earlier and CEO Arun Sarin, steps down.

DD Unrealised gain YTD	-4.41%	ISEQ YTD	-14.43%
DD Realised gain YTD	-10.96%	FTSE YTD	-13.47%
DD Total YTD	-11.39%	Average performance	-13.95%

Relative Performance 2.56%

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

What it says in the 'Sundays'

Company	Paper	Headline
Irish Economy	S. Independent	Property Dam about to burst
DCC	S. Tribune	Buckley faces mutiny at DCC agm
Tullow Oil	S. Tribune	Oil to surge past $200 a barrel, says Tullow Oil Chief
Ryanair	S. Times	Feeling the squeeze
Iona	S. Business Post	Iona sale reaches its endgame

Upcoming Corporate Visits

COMPANY	PRESENTATION DATE
IFG Group	5th June 2008
Paddy Power	13th June 2008

Last Weeks Moves

Equities

	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	6106	0.7%	-11.9%	3.8%	8.7
FTSE 100	6054	-0.5%	-6.2%	4.2%	11.6
DAX	7097	2.2%	-12.0%	3.4%	13.1
Dow Jones	12638	1.3%	-4.7%	2.5%	15.7
S&P 500	1400	1.7%	-4.6%	2.2%	23.1
Nasdaq	2523	3.2%	-4.9%	0.9%	37.7
EuroStoxx 50	3183	0.4%	-13.6%	4.5%	11.1
Nikkei 225	14339	2.3%	-6.3%	1.5%	17.3

Technical Short-Term Trading Idea:

Strategy: Long US large-caps (S&P 500) versus Short US small-caps (Russell 2000)

Comments:

- 1 month performance: S&P 500 -2.00%, Russell 2000 + 2.11%. YTD performance: S&P 500 -5.63%, Russell 2000 -3.27%.
- The current macro environment does not justify these relative moves (tighter credit conditions, persistently higher volatility, and a softer cyclical environment all favour large-caps over small-caps; large-caps have more exposure to $ weakness & emerging markets whereas small-caps tend to have more domestic focus).
- In times of increased risk large-caps are perceived to have a higher safety premium.

Trade:

- Long 1 S&P 500 future vs. Short 0.77 Russell 2000 futures… this is a risk-adjusted ratio.
- Trade duration can be short-term but given recent relative performance a 2-6 week timeframe might be more suitable.

Indices can be traded through CFD accounts. The S&P closed on Friday at 1,400 and the Russell at 748. Each mini contract for the S&P has a $50 per point exposure and a $100 per point exposure for the Russell.

Commodities

	Current	Change YTD
Crude Oil	$127.35	+33.0%
Gold spot	$885.43	+6.2%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.557	+6.7%	1.45-1.55
EUR-GBP	0.786	+6.9%	0.74-0.78
EUR-JPY	164.0	+0.7%	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%	4.87%	3.75%
UK	5.00%	5.87%	4.87%
US	2.00%	2.68%	1.75%

Credit Market Summary

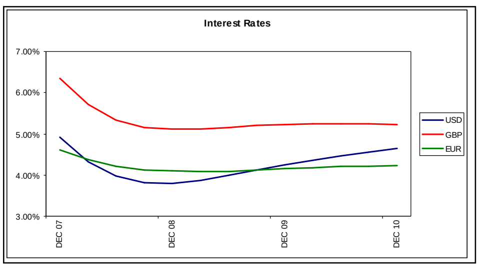
Credit markets started the week wider however housing data in US on Tuesday turned sentiment around and spreads saw marginal tightening for the remainder of the week. Spreads are not expected to retest the lows seen 3 weeks ago, which were generally seen to have had been exuberant in light of the ongoing credit market concerns. New bond issuance, particularly in the financial sector, had been of particular note during the recent period of tighter spreads, as issuers take advantage of a window of opportunity. It remains to be seen if this window reopens, as this will depend on macro data out of the US and the extent of the contagion effect from the credit crisis.

Credit Sector Movements

Airlines: Mixed in the sector – Airlines were tighter this week on falling oil, Lufthansa 3% tighter however this follows last weeks 21% widening in the name; while British Airways also tightened 5% however this again did not compensate for the 25% widening seen in the name last week which took spreads to just shy of all time wides of 400bps.

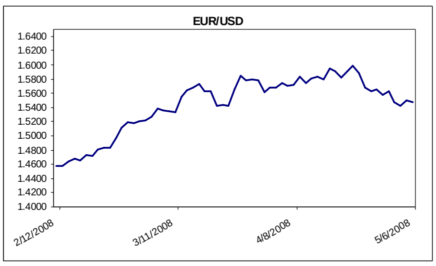
Food/Beverages: Marginally wider in the sector – each Cadbury, Diageo and Compass saw spreads widen 5% last week following rumours of consolidation in the sector after Hershey are reportedly speaking to JPM Chase on mergers and acquisitions.

Interest Rate Outlook

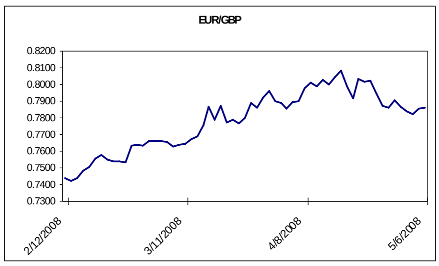


Government bonds declined last week as a decline in commodity prices failed to dispel inflationary concerns. The yield on the US 10-year touched 4.14%, its highest level since December, before easing back 4.03%, up 18 basis points on the week. The German Bund yield also rose 18bps to 4.44%, having hit a 10-month high during the week

Currency Comment



The $ strengthened slightly against the € last week on speculation that US interest rates may be increased by the end of the year as recent economic data has proved more resilient than previously expected. Focus for the $ this week will be on Friday with a further contraction in nonfarm payrolls number expected. A better than expected reading may provide a further boost to the currency.



The € weakened against £ last week on concerns that European economic data will deteriorate following a robust showing for the first quarter. Key this week will be interest rate decisions out of both the UK and Europe, with both central banks expected to keep interest rates on hold at 5.00% & 4.00%, respectively.

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