



# Weekly Traders Update



06 Feb 2006

## Brief Market View

At last Thursday's meeting of the European Central Bank interest rates were left unchanged at 2.25%. However Mr Trichet reiterated his concern over inflation and the near term risks. It is widely expected that the ECB will hike rates again at their next meeting in March by 0.25% to 2.50%. But that hike is likely to be the last for some time as the ECB sits back and monitors inflation, money supply and economic growth over the next few months. However the Euro has been under pressure today as currency markets focus on rates in the US. Euro/USD is trading sub 1.20.

In our Outlook 2006 document we identified a number of themes that would drive equity markets higher during 2006. M&A activity was one of these factors and the FTSE100 has been the best example of this theme since the start of the year. BOC Group, Hilton Group, Lloyds, Unilever and Centrica have all been linked to possible M&A activity. Such corporate activity and rumours signify that Investment Banks and Private Equity groups view current market valuations as attractive and good value.

Equity markets have been very resilient in the face of somewhat disappointing earnings in the US, an increase in interest rate expectations and a high oil price. We are expecting markets to retreat at some stage over the next 4/6 weeks and would be locking in profits in some of the large cap Irish names. We remain buyers of selective stocks namely Fyffes, Kerry Group, C&C Group, Rank Group, Wilson Bowden, Glaxosmithkline, BP and Vodafone.

## Ryanair €7.45 Results & guidance in line, no upgrade to earnings.

Ryanair has reported adjusted profits after tax of €36.8m for the three months to the end of December, up 6% on the same period a year earlier. Strong growth in ancillary revenues and passenger growth offset significantly higher fuel costs during the period. January passenger numbers released on Friday afternoon indicated that group carried 2.538m passengers and remains on track to carry 35m passengers for the year ended 31 March 2006. Q4 yield erosion should be in the middle of 5% - 10% previously guided range. Ryanair expects €30m in savings from the newly unveiled online check in to feed through into lower airline fares for customers. The stock is down 3.5% this morning following the results announcement however we view this weakness as a good buying opportunity for clients not currently invested in Ryanair.

## Wilson Bowden (WLB.L) 1497p Sector outlook improving, good dividend yield play near term

Bellway, the UK home builder reported solid results last week and was optimistic on the market outlook commenting that they had seen an "upturn in buyer confidence and sales rates have been improving". Management also commented that margin pressure had not been a bad as previously expected. Recent trading updates from the leading mortgage providers in the UK have pointed to a pick up in new mortgage lending. Our view on UK Interest Rates is that we may see another rate cut from the current level of 4.50% over the next 6 months. We rate Wilson Bowden a buy at current levels.

## Eircom €2.03 Press speculation of Babcock & Brown bid for company.

The Mail on Sunday newspaper reported over the weekend that Australian investment bank, Babcock & Brown, is set to buy Eircom for circa £2bn. In late October, the Australian Bank took a 12.50% stake in Eircom at which time it commented that the stake was a long term investment. Eircom is fairly valued fundamentally at €2.00. Hold at current levels.

## Fyffes €2.28 Buy at current levels

As announced before Christmas, Fyffes will pay a special dividend of 5.7c to shareholders on the register as at 08Feb. This dividend is expected to be paid 3rd March. News flow has been relatively quiet following the speculation that prominent property developers may have been building a stake in the company. We rate the shares a buy at current levels.

## BP 664p - RD Shell and drop in oil price takes shine off Oil sector, results this Tuesday

RD Shell reported Q4 results in line with expectations however the announced share buy back programme of \$5bn was only half what the market had been expecting. Subsequently the sector performed poorly last week and added to that the price of Crude Oil fell 3% on the week. We are expecting a more positive update from BP this week and are buyers ahead of the results on tomorrow. The company is expected to earn £3.2bn for the qtr.

## Glaxosmithkline 1456p Rumoured interest in Serono, GSK results due on Wednesday.

GSK is expected to report a 19% rise in FY2005 results on Wednesday driven by strong sales of their Asthma drug (Advair) and improving productivity. Sales are expected to rise 6% to £21.2bn. Guidance from GSK regarding its drug pipeline will be key this week. In particular, the market will be looking for further information regarding its cervical cancer vaccine Cervarix and a possible date for filing with the US FDA. Regarding Serono, the Swiss based Pharma group, it was speculated over the weekend that GSK was considering a reduced bid for the company after an earlier auction failed to attract a buyer. Any such move from GSK would be a large bolt-on acquisition in the biological medicines area.

## William Hill 591p - Private equity interest in Ladbrokes pushes sector valuations up, switch into RANK

Last week Hilton Group confirmed it had received several approaches for its Ladbrokes bookmaking business including a bid from CVC Capital for £3.7bn. The group rejected the bid commenting that the approach included a number of pre-conditions and failed to recognise the long-term value of the Ladbrokes business. William Hill has been a good performer since we covered it in early December and briefly hit our target of 600p during the week. We are recommending clients take profits in any William Hill positions this week should the shares trade above 600p again and switch into Rank Group which is commented on below.

## Rank Group 268.5p Another M&A target?

Rank Group is an international gaming and leisure group. Rank's gaming business comprises Mecca Bingo, Grosvenor Casinos, Hard Rock Casinos and Blue Square in the UK, as well as 11 bingo clubs in Spain and 2 casinos in Belgium. Mecca was acquired by Rank in the early 1990's and is now one of the largest bingo operators in the UK with a total of 117 bingo clubs and over 5 million members. In 1996, Rank Group bought the Hard Rock Cafes and brand rights. In early January the group disposed of its Deluxe Film operations for £430m to MacAndrew & Forbes. The new group structure of UK bingo and casinos, and Hard Rock cafes and brand-extensions in casino and hotels, is now a more likely target for takeover or break up from venture capital bidders looking to gain exposure to the opportunities from gaming deregulation over the next 3-5 years. Rank Group Profits by division 2006e: Bingo 48%, Casinos 24%, HardRock 25%, Blue Square 3%.

## Kingfisher 228.5p Going lower near term, Sell

We covered Kingfisher at 245p in November when we commented on the Retail sector. Picking Next, GUS and Kingfisher as the best candidates for a rally into December after a dismal 2005. Unfortunately Kingfisher has not recovered in line with the sector and we are recommending clients to exit any long positions ahead of their trading statement on 16th Feb. Home Depot, the US DIY retailer, had been rumoured to be looking at Kingfisher but any chances of this now look unlikely given the recent \$3bn acquisition of Hughes Supply by Home Depot recently. Kingfisher shares have fallen 7% since we covered them in Nov, while Next has risen by 25% (recommended clients to take profits above 1700p in early Jan) and GUS has risen by 26% (hold near term).

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## Earnings Calendar

06 Feb	Ryanair
07 Feb	Aviva (New Business)
07 Feb	BP (FY05/Q4)
08 Feb	BHP Billiton (H1)
08 Feb	Glaxosmithkline (Q4)
09 Feb	BOC Group (Q1)
13 Feb	Lafarge (FY05)
15 Feb	Total (FY05)
15 Feb	BNP
16 Feb	Eircom (Q3)
16 Feb	Bradford & Bingley
16 Feb	Daimler Chrysler (FY)
16 Feb	Kingfisher (Q4)
21 Feb	Barclays (FY)
21 Feb	Scottish & Newcastle
22 Feb	AIB (FY)
22 Feb	McInerney (FY)
22 Feb	Anglo American (FY)
23 Feb	Paddy Power
23 Feb	Trintech
23 Feb	Readymix
23 Feb	Unidare
23 Feb	Hanson
23 Feb	Hilton Group (FY)
23 Feb	Reuters (FY)
24 Feb	Lloyds TSB (FY)
24 Feb	McInerney
27 Feb	C&C Group (Trading)
28 Feb	Kerry Group
28 Feb	RBS
28 Feb	Datalex
01 Mar	HBOS (FY)
02 Mar	William Hill
03 Mar	Fyffes (FY)
06 Mar	ICG (FY)
06 Mar	Kingspan (FY)
07 Mar	CRH (FY)

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