Weekly Traders Update

DOLMEN STOCKBROKERS

10 Oct 2005

Brief Market View

A full economic data calender this week and Q3 earnings season in the US begins. Fridays employment data in the US was a non event as the market discounted a rogue figure from the spate of Hurricanes. The figure was however marginally better than expectations with Non Farm Payrolls for September falling by 35k jobs. This week the focus will be on Fridays US CPI (Inflation) data which we view as the most important reading from a Fed perspective and the outlook for US rates. The Euro rallied against the Dollar last week as Mr Trichet (President of ECB) proved to be a little more hawkish on Inflation and European Interest Rates. The market is now expecting a rate hike in Europe in early 2006. Sterling suffered on the back of weak economic data and continued concerns over the financial health of the UK consumer. Euro/USD should continue its good performance from last week and move higher towards 1.25 over the next few weeks. Slightly more longer term out of Euro/GBP view of 0.70. Q3 US earnings begins this week with Dow components Alcoa (today), Apple (Tues) and General Electric (Friday) reporting results. The UK retailers get the reporting season in the UK underway with updates from GUS and Marks & Spenser (both Tuesday) due this week. C&C Group issue a trading statement tomorrow morning and the market will focus on the rollout of Magners in the UK and sales trends in the US and Scotland.

Ryanair €6.77– Guidance unchanged following Investor update - BUY

Ryanair gave an upbeat picture of current trading at their investor update last week, with traffic growth on track (+27% in September) and noted that yield conditions were benign. **Guidance** from management is unchanged (net income EUR295m for 2005/6). Management also indicated that it viewed the upper end of the range estimates of c.€340m as too high. Primarily driven by caution on Q4, which has historically been a weak quarter for the airline group. The company has hedged its H2 fuel costs at $49 pbbl and expects it will continue to benefit from fuel surcharges being charged by competitors in Europe. With regard to **pricing**, Ryanair expects the pricing gap on fares between Ryanair and the flag carriers will close as flag carriers are forced to reduce fare prices in Europe. Accordingly such price competition could result in yield pressure of c.5 to 10% in Q4 for the group. From a **strategic perspective** - Ryanair continues to target passenger growth of c.20% p.a. through a on-going expansion plan of opening new routes and hubs. For FY 2006/7 it announced the conversion of 9 options on Boeing 737-800s along with the planned sale of five of its original 737-800s. The net increase of four planes will take its capacity growth to 22%. Ancillary revenues remain a source of growth and the company expects at least a 1 percentage point increase in the revenue mix every year (for FY 2005 ancillaries represented 14% on group revenues). Ryanair announced plans for online gambling on its flights via specialist terminals.

Legal & General 108.5p - Reaction to UK Tax news, buying opportunity

The potential £200m of additional tax is because of new tax measures proposed by the UK's Economic Secretary to the Treasury last week. L&G has estimated that if the proposed new legislation were applied to its accumulated non-profit reserves in its UK Long Term Fund, then the additional tax charge could be c. £200m (c.3p per share). The £500m figure is only the IFRS non economic treatment. So now in the price at £1.11 and with the industry likely to make very strong representations in the coming weeks, the final legislation enacted could be significantly more benign. Therefore, not sufficiently material an issue to downgrade our current **BUY** recommendation and 12 month price target of £1.25 (15% upside).

Royal Bank of Scotland 1603p : Corporate Business & Financial Markets presentation.

At last weeks CBFM presentation RBOS management presented an upbeat message on CBFM which was as expected. Management reassured on margins after the decline in the first half of 2005. The growth prospects for total income at CBFM are above the group average but it expect the division faces similar challenges on costs. **BUY**

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Events Calender

October
11Oct - C&C (H1)
12Oct - GUS (H1), M&S
14Oct - General Electric
28Oct - Elan (Q3)

Novermber
01Nov - Viridian (Interims)
03Nov - DCC (Interims)
07Nov - Ryanair Trading Stat
10Nov - Waterford WW (Q3)
18Nov - Greencore (FY05)
23Nov - Anglo Irish Bk (FY)
- Trintech (Q3)
- United Drug (FY)
24Nov - Bank of Ireland (Ints)

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Tullow Oil 237p - Looking attractive again.
After enjoying a very strong performance Tullow Oil has dropped 10% from its recent high of 260p. The Oil sector has declined as investors took profits in one of the best performing sectors year to date and the oil price fell back of all ime highs to its current level of $61. Typically Tullow Oil trades very closely to the movment in the oil price. At a price of $61 per barrel of Oil the bullish case for Tullow Oil remains intact and we are expecting the stock to revisit 260p near term. **BUY**

Tesco 305p - Oversold post recent results
From its recent high of 336p during August, Tesco has fallen by over 10%. **Recent results** were ahead of expectations but cautious comments from management regarding the impact of higher oil prices on consumer spending has sent the stock lower. Despite the numbers coming in ahead of expectations, the results were greeted with a muted response from City analysts with the majority of them leaving their forecasts unchanged and shares in the retailer dropped by 4% on the day. Despite the negative share price reaction the Tesco story remains intact. **Strong growth:** The retail sector as a whole continues to struggle amid a difficult consumer environment, but Tesco continues to outperform its closest rivals on the back of strong LFL sales and an aggressive store-opening programme. Tesco is also developing a high quality international business. Tesco recently announced a deal with Carrefour as part of a strategic move to strengthen its businesses in Central Europe. **Summary:** Despite trading at a slight premium to the sector, shares in Tesco remain good value with its superior earnings growth. The market's reaction to the group's interim results appears to be overdone and the recent weakness provides investors with an opportunity to buy into one of the UK's most consistent performers.

Independent News & Media €2.36 - Good buying opportunity
Independent News & Media fell 4% last week following weaker than expected results from a peer company in Australia and a judgement in the High Court that the new Metro freesheet has been granted an injunction which prevents Independent Newspapers from using the title Metro in a new rival freesheet edition of the Evening Herald. Recent results were ahead of expectation but circulation growth slowed to 5.5% growth from 10% previously. We upgraded our recommendation from Neutral to Buy last week following the sell off post results. Circulation growth is slowing but Advertising revenue remains strong. The stock is currently yielding 4.43%. We are expecting the stock to recover to €2.55/€2.60 near term.

Adidas €152 - Positive feedback post meeting with Management
Following our recent meeting we management in Germany, we remain bullish on the medium term prospects for the worlds second largest sportswear retailer. Group management remains confident that the recent acquisition will boost their US market share given the sizeable exposure Reebok has to the NFL and NBA markets. The group has also secured exclusive sponsorship of the next three soccer World Cups and is bullish on the outlook for their exposure in Asia. **BUY**

BMW €39.07 - Very strong September Auto sales +11.4% YoY
Last week BMW reported exceptionally strong group sales for September (+11% YoY) driven in particular by strong sales of the 3 and 7 series models. BMW board of management recently approved a share buy back programme of 20m shares or 3% of shares outstanding. BMW management indicated that the buy back authorisation until November 2006 is for up to 10% of share capital but will be likely to take place gradually over the next 15 months. The significant cash pile (circa €3bln) means that the share buy-back story is likely to be a feature of the BMW story for the medium term. The company is also expected to generate over €1bln in free cash flow over the next 3 years. BMW has under-performed its German peers and the European Auto sector by 10% over the past 8 weeks that is unwarranted given the strong monthly sales figures that BMW is achieving in Europe and the US. Second quarter sales grew 9.3% and most recent deliveries for August rose 23.9%. Our preference for BMW remains focused on (1) the strongest and youngest product pipeline in Europe, (2) Industry leading margins (3) strong ramp up of 3-Series sales over the next two quarters (35% of total group revenues) and (4) undemanding valuation at 10x 2006 earnings. BMW is one of our top picks in the European market. **BUY**

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