Weekly Traders Update

DOLMEN SECURITIES
member of the ERGO Group

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Brief Market View
Quite an eventful week last week from an economic data perspective. Mr Trichet managed to wrong foot the market on Thursday when he talked down the possibility of a rate hike in Europe in May. Bonds rallied and the Euro sold off sharply against the Dollar and Sterling. This week is likely to be relatively quiet given the Bank Holiday weekend in the US and in Europe. IFG report earnings on Wednesday, while in the UK a trading update from Marks & Spencer on Tuesday is the highlight of the week. Q1 earnings season in the US kicks off this week with Alcoa reporting after the close this evening. US earnings are expected to grow by between 10% and 13% year on year. US bellweather, General Electric reports Q1 results on Thursday after hours which will be closely monitored as many analysts view GE as a proxy for the wider US economy. Financial stocks have been somewhat disappointing over the past few weeks however valuations and dividend yields look attractive at current levels and we are buyers of HBOS, Lloyds, RBOS, Bank of Ireland and Deutsche Bank. Other stocks that we continue to recommend in Europe are Adidas (analysts day tomorrow in London), BMW, SAP and Inditex. In the UK we are buyers of Reuters, Glaxosmithkline (switch out of Astrazeneca), BP, British Land, William Hill, Vodafone and Aviva.

APPLE $70.69 Positive news on Windows integration
Windows deal: Last week Apple said it will offer Microsoft's Windows operating system on new Macintosh computers. It unveiled the launch new software called "Boot Camp" that will enable its computers that use Intel microprocessors to run Windows XP. By allowing Macs to run Windows, the operating system found on more than 90 percent of the world's PCs, Apple could benefit from substantial market share gains with customers who want Macs, but prefer the Windows operating system. It is estimated that earnings will be boosted by c.15% for every one percent of market share gained. **Recent underperformance:** Shares in Apple have fallen by c.30% since January, with a number of factors contributing to this weakness. The main driver of the weakness was concern over the transition in supplies of Macs as Apple makes the switch to Intel-based versions of the PC. Current consensus forecasts have already factored this in so it is unlikely that Apple will miss Wall St expectations when it reports Q2 results on April 19. **Legal disputes:** More recently it has been legal matters that have weighed on Apple's share price. In France a law was passed that will force Apple's iTunes online music store to remove software barriers that currently prevent consumers from playing downloaded tracks on any digital device other than the company's own iPod player. It is estimated that music downloads in France only contribute less than one percent of total group revenues. Therefore any further negative implications from this ruling should be minimal. Apple's share price has also been held back by some negative media coverage of Apple's ongoing legal dispute over the use of their names and trademark logos with the Beatles' record label Apple Corps. Ltd. Apple Corps is looking for the Apple logo to be dropped from iTunes and the outcome is unlikely to have a significant impact on Apple's revenues. A ruling is expected after Easter. **High growth:** Apple will report Q2 results on April 19. The company has guided for $4.3bn in sales and EPS of 38c, which would appear conservative given the consensus estimates of $4.6bn and 44c respectively. Forecasts for iPod unit sales range from 8.5-9.5m.

Vodafone (£1.26) 12 month yield of 12.3%
Cash rich: As a result of the £6 bn of cash (10p per share) from the recent sale of its Japan stake, Vodafone is likely to distribute a total of 15p per share to shareholders within the next 12 months, representing a yield of **12.3%** on the current share price. Additionally, if the special dividend is distributed by way of a share consolidation and the issue of B shares, then this distribution should boost group eps and help achieve further share price upside from current levels. **Compelling yield:** In early June (1st June last year), Vodafone shares will go ex with respect to a final dividend for the year ended 31/03/06 of c.2.5p per share. In late November (23rd November last year), Vodafone shares will go ex with respect to an interim dividend for the year ended 31/03/07 of c.2.5p per share. By the end of March 2007, the shares will also have gone ex with respect to the special dividend of 10p per share. The method and timeframe for this special dividend will be announced in conjunction with the company's full year results' announcement on 30th May. **Roaming regulation:** There has been a c.5% correction in the share price over the past 2 weeks as a result of the EU's plans to regulate international roaming prices. However, with these regulations not being implemented until summer 2007 at the earliest and consensus forecasts already assuming 15-20% per annum roaming rate decline, the incremental damage to forward eps is unlikely to exceed 2%. Indeed if the roaming rate reductions result in greater usage amongst non-business users, then such recent earnings forecast reductions may ultimately prove overly conservative. **Customer growth:** Under a worst case scenario, Vodafone remains on course to generate average group revenue growth of 6% over the next 2 years, driven by strong customer and traffic growth from the recent acquisitions in Sweden, India, South Africa and Turkey. This means that Vodafone's revenue growth should still significantly outperform the average of the incumbent telecom sector, which is expected to be c.3%.

Lloyds TSB 535p Strong Fundamentals and rumoured M&A activity
Lloyds TSB recently announced results for the year ended 31/12/05. Profit before tax of £3.47 bn and eps of 44.6p were ahead of consensus forecasts of £3.315 bn and 42p, and were year on year increases of 4% and 8% respectively. The results showed modest retail banking growth and good cost control being less offset by higher bad debts than had been expected. The results also indicated that there has been no further deterioration in retail unsecured credit quality since the bank's trading statement in December, and that the outlook for Scottish Widows is continuing to improve. This business and Lloyds' Insurance and Investments division in general is benefiting from a strengthening UK life and pensions market, as well as increasing bancassurance volumes. Wholesale quality: It is also worth noting that even though the 2005 bad debts charge as % of average loans was higher in retail banking, it was lower at the group's corporate lending operations as credit quality at the bank's Wholesale & International business remained strong. Takeover potential: In January 2005, we downgraded our Lloyds TSB recommendation from BUY to NEUTRAL, as our view was that the takeover speculation at the time represented an opportunity for some profit-taking. However, this year, with the bank's management significantly less "new to the job", having joined after June 2003, we see greater potential for an approach being made.

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Earnings Calendar

11 April
Adidas (Investor day)
Mark & Spenser (Trading)

12April
IFG (FY)
GUS (Trading)

13 April
General Electric Q1.

Economic Data

11 April
German ZEW Survey 61.1

12 April
US Trade Deficit -$67.5bln

13 April
US Retail Sales MoM 0.5%
Michigan Sentiment 89.5

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