

Weekly Traders Update



Brief Market View:

A reasonable performance from equity markets last week as the oil price retreated to below \$64 and investors looked through the near term problems of the recent price spike and refocused on earnings growth and the relative valuation of equities versus bonds. 10-Year German bunds are yielding 3.05% which makes equity markets look their most attractive in quite some time. German elections commence next weekend and structural reforms in the labour market will be the most contested topic. The opposition leader Merkel is expected to win and form part of a coalition government. The German market continues to be one of the best performers year to date and our picks remain Deutsche Bank, Adidas and BMW.

From a US market perspective, Fed governors Moskow and Yellen were both relatively cautious on inflation last week prompting a turnaround in the Dollar ahead of this weeks key PPI and CPI data. Inflation (CPI) data for August is due on Thursday afternoon and will be a key factor in determining the near term moves of the Dollar and how many more interest rate hikes the Fed have left before the end of the year.

Results from **Grafton Group** are due on Tuesday morning. We are expecting a 20% gain in earnings for H1 2005 (EPS (e) 29 cent) and a positive update on the Heitons acquisition. The outlook from mgt, in particular to the trading environment in the UK, will be a key issue given the recent disappointing update Travis Perkins and general concerns over the state of the DIY market. **Independent New & Media** reports interim results on Wednesday and we are expecting a solid set of results from the group. UK circulation figures may show some slight deterioration while the Irish and Australian operations should be more positive. **Kingfisher** reports interim results on Thursday, we are expecting a weak set of numbers but would use any weakness as a buying opportunity.

Bank of Ireland - Buy €13.00

The shares in Ireland's second largest retail bank have fallen almost 6% since the beginning of August as the market reacted to the disappointing results from RBS. With 24% of its profits coming from the UK through its Bristol and West subsidiary, the reaction within the market was understandable to a certain extent. Bank of Ireland however is more than just a one trick pony, and the bulk of its profits (73%) are still generated in the Irish buoyant market. This buoyancy was confirmed with the upgraded guidance issued by AIB in its recent results release. Crucially for Bank of Ireland, it has reached agreement with the IBOA over the terms of the redundancy proposal which will see 2,100 job reductions between now and 2009, clearly a positive for the bank's cost base. Equally, the flow of mandates away from its asset management division BIAM, appears to have been arrested, another positive. While the UK market still poses challenges for the bank, particularly with its tie-up with the UK Post Office, the recent price fall appears overdone. Based on F/Y 2006 EPS of €1.33, the shares trade on a multiple of 9.9x and yield 4.2%. This compares to AIB on 11.3x '06 earnings and HBOS on 9.7x '06 earnings.

CRH €22.65

Recent results were in line with expectations. Strong performance from US assets, Europe not a bright spot yet but macro indicators are starting to turn across Europe and CRH is well exposed in that region. EUR190m acquisitions since the last update, EUR100m of that the French acquisition. H2 typically the most active for CRH from an M&A perspective and we expect that trend to continue. EUR25 target, looks like one of the best value stocks in the Irish market currently.

GlaxosmithKline - Buy 1340p

Pharmaceutical giant GlaxoSmithKline recently reported earnings ahead of consensus forecasts yet the shares failed to respond in any meaningful way. Despite reporting Turnover of £5.246bn (+6%), Operating Profit of £1.711bn (+13%), Profit Before Tax of £1.662bn (+9%) and EPS of 20.4p (10%) the shares remained unchanged at current levels. This was somewhat surprising given the fact that the reporting period included the March production set-backs at its Puerto Rican production facility involving two key drugs Paxil and Avandamet. The main reason for the markets lukewarm reaction to GSK's results was the release on the same day of better than forecast figures from peer company AstraZeneca. While AstraZeneca's results were extremely impressive, so too were the GSK numbers. More impressive however is the pipeline of drugs currently being developed by Glaxo compared to Astra, and also the fact that the generic risk to Glaxo is somewhat less. The underperformance of the Glaxo share price relative to AstraZeneca (up 11.6% since its results) is unwarranted and provides a good buying opportunity in a defensive stock that also promises growth potential. The shares trade on 15.8x 2006 EPS compared to a sector average of 16.5x and AstraZeneca on 16.1x. **BUY.**

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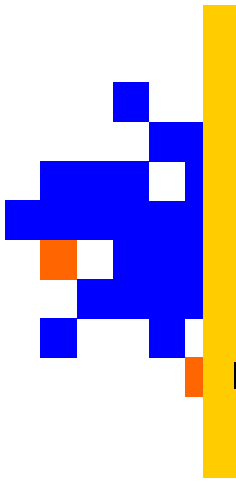
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British Land 908p

British Land is a property investment company based in London with a portfolio focused on out-of-town retail sites (41%) and Central London offices (40%). Income is secured via long leases and a good quality tenant base, while income growth will come from reviews and new lettings, a significant proportion of which is either contracted or indexed. The company also operates 12 joint ventures which also helps extend the company's exposure, but also reduces the funding pressures. The company currently trades at a 25% discount to the estimated 2006 NAV of 1125p, compared to a discount of just 14% for its peers. The outlook for the company's portfolio is good with an improving yield trend in the London Office market, and retail rentals, although likely to be slow, will nonetheless continue to perform well over the next few years. The quality nature of the groups portfolio and the leasing arrangements in place, leave the group well protected against the current UK interest rate uncertainty. **BUY**

Boots 630p

Good performance from the retailer last week following two positive reports from UK brokers. Boots is scheduled to provide investors with a pre-close trading update on 29th September, but it will be the sale of its BHI (Boots Healthcare International) division that will attract most interest. GlaxoSmithKline and Reckitt Benckiser are among six bidders shortlisted to buy the £1.2bn healthcare business of Boots. Richard Baker, the chief executive of Boots, put BHI up for sale in April with a price tag of £1.2bn following a series of disappointing trading updates. Interest for the business has been strong, and that the eventual winner of the auction may have to pay more than £1.8bn. The market will continue to speculate on the eventual sale price, and this speculation is likely to act as a positive catalyst for Boots' share price in the short-term. Again the market backdrop and business outlook remain challenging but private equity interest will remain a key driver of stock price performance near term. **Buy sub 620p**

Kingfisher 245p

Interim results are on September 15th (Thursday) and are likely to show substantial year on year decreases, with EPS down by about 20% as the company, particularly its B&Q division, struggles amid a difficult macro economic environment. But like Boots, it is M&A activity that will keep markets interested in Kingfisher. News that Warren Buffett has started building up a stakes in Kingfisher and Home Depot has fuelled speculation that Kingfisher may be primed for some form of M&A activity. Kingfisher would be vulnerable at the moment to such activity, after changing the management at its core British business and a profit warning last April following a slide in sales. Despite its struggling UK operations, it would be its presence in China that would attract Home Depot. Weak retail sales in the UK, increased competition in France and a profit warning from UK building company Travis Perkins have been the key factors tormenting the stock but we feel the stock represents reasonable value at 245p. Warren Buffet is well known for his ability to spot beaten up companies that are ripe for a picking. KGF profits by division: B&Q 53%, Castorama 20%, Brico Depot 14%, other 12%. **BUY**

Deutsche Bank AG €78.03

Group profile: Deutsche Bank is a leading international financial services group and the largest bank in Germany. It consists of two operating divisions, Corporate and Investment Banking, which makes up 65% of group profit before tax, and Private Clients and Asset Management. Its major presences are in the German and US markets.

Strong Results: The bank recently reported much better than expected results for the 3 months ended 30/06/05. Net profit of EUR947m was significantly ahead of the consensus forecast of EUR803m, and was a year on year increase of 44%. These results confirmed that the bank remains on track to achieve its 2005 pre-tax return on equity target of 25%.

Attractive yield: Deutsche also stated that it had accrued EUR700m for dividend payments in H1 2005, resulting in the consensus 2005 and 2006 dividend per share forecasts increasing to EUR2.18 (3.1% yield) and EUR2.50 respectively. This substantial increase in the 2005 dividend indicates that the recent improvements in the bank's businesses are sustainable. Cost savings : The major restructuring program announced in September 2004 included a 9% reduction in total staff numbers. The cost savings from this restructuring program will help drive further earnings growth in 2006. **BUY**

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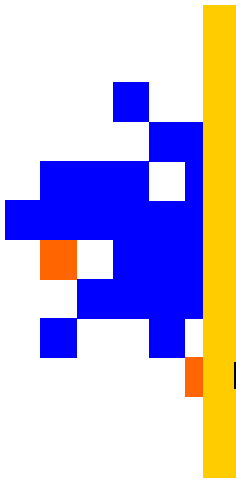
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Scottish Power 570p

Press speculation over the weekend that Scottish & Southern Energy could be interested in the UK utility company has pushed the stock up 2.5% this morning in early trading. While another report indicated that E.ON group could make an £11bn cash bid for the company which would value the stock at 585p - 595p per share. Given the 20% rally in the share price over the past two months we are recommending clients that have held the stock for some time to take profits.

Hilton Group 304p

The stock went ex-dividend last week and wasn't helped by the fall out from Partygaming. However the group has rebounded well following the spate of terrorist attacks in the UK even while news flow remains relatively quiet. While obviously of concern to Hilton Group, the over emphasis on the hotel side of the business is somewhat misplaced as this business accounts for just 15% of group turnover. Operating profits in the hotel division for 2004 were £197m, however slightly less than half (48%) of this is generated in the UK. At the time of the company's trading update in May the larger contributor to group profits, Ladbrokes, was trading in line with the company's expectations with stronger turnover being slightly offset by lower margins. The contribution from betting terminals grew strongly with 7,522 Fixed Odds Betting Terminals and Amusement with Prizes now deployed in the UK. The company is continuing with its £300m to £400m hotel asset disposal programme, while as of May, Net Debt stood at £748m down from £1,035m a year previously. Revenue split by region: UK 87%, Europe 11%, Rest of the world 2%. Profits by division: Betting 73%, Hotels 27%. Betting Profits by division: UK Retail 79%, Ireland & Belgium 5%, Telephone 6.5%, eGaming 8%. The shares trade on 13.9x Dec '05 EPS and 12.3x Dec '06 EPS and yield 3.5%. While short term uncertainties may impact the shares, longer term the shares are excellent value. **BUY.**

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