

# Weekly Traders Update



## 13 Feb 2006

### Brief Market View

The investment bankers are getting busier and busier! More M&A rumours and approaches supported the UK market. BAA received a bid from Ferrovial and was also linked to private equity firm Star Capital. Corporate earnings in the UK last week were better than expected with BT Group, Glaxosmithkline, Unilever and BG Group all posting strong earnings and better guidance. The significant drop in the major commodity prices did hamper the performance of the FTSE given its substantial Oil and Mining weightings. A better week for US earnings too with Cisco jumping 7% on better numbers.

This week is relatively busy from a UK perspective with British Land, BHP, Diageo, Kingfisher and Reed Elsevier all reporting. Highlights in Europe with BNP on Wednesday and Daimler Chrysler on Thursday. In the US, Dell is the major earnings news of the week on Thursday evening. In Ireland, Eircom issue Q3 results on Thursday. On the currency front the Dollar rebounded well with Euro/USD trading below 1.20 driven by expectations of higher rates in the US and the idea that the interest rate carry of Dollars (4.50%) versus Euros (2.25%) will continue to keep the Dollar in demand. This week Mr Bernanke, the new chairman of the US Federal Reserve, makes his first address on Capitol Hill when he delivers his Humphrey Hawkins testimony. The market will be watching closely for any comment regarding future interest rates in the US. Equity markets remain remarkably resilient. The US equity indices look weakest technically and we are expecting a pull back over the next few weeks. Germany and the UK are technically in a better position with volume and momentum pointing to further gains. This weeks top three trading calls are on the following blue chip names below:

### KINGSPAN €11.78 Upgraded to Buy ahead of results on 06th March.

Results preview: On Monday, 6th March, Kingspan will announce its results for the year ended 31/12/05. We are forecasting profit before tax and earnings per share of EUR134.2m and 64.2c respectively, year on year increases of 53% and 37%. And are buyers of the stock ahead of this update. The main growth drivers of Kingspans business are their Insulated Panels, Insulated Boards and Structured Business (including Century Homes) divisions. The increasing importance of energy conservation because of high energy prices is driving strong sales growth at the insulated panels business. The increasingly tight regulatory environment is driving strong sales growth at the insulation boards business, and the inclusion of Century Homes, acquired in April 2005, is helping to drive very strong growth at the structural business. Results from Kingspan's UK structural peers, such as Severfield-Rowen, continue to show that the trading environment for the structural building components' business remains buoyant. In addition to such buoyant underlying trading conditions, Kingspan also has last year's Century Homes acquisition to augment this business' growth rate. Margins are also going the right way for the group with its H1 2005 results showing higher input costs being successfully passed on, and manufacturing efficiencies helping to increase the group's H1 2005 gross margin to 30.3%, from 29.5% for full year 2004. Our medium term price target on Kingspan is EUR13.

### Independent News & Media (EUR2.54) Looking attractive again.

In December the company issued an upbeat trading statement, reassuring the market on its progress for the year ahead. The group highlighted its improving margin situation and re-iterated its full-year guidance for double-digit earnings growth. Recent results for the 6 months ended 30/06/05 showed earnings per share growth of 14.7%. Such double-digit year on year growth was primarily driven by strong advertising conditions in the group's key markets. The advertising revenue growth of the publishing division was 12.4%, whereas circulation revenue growth was 5.5%. Even though this 5.5% circulation growth represented a slowing on the 10% circulation growth achieved in 2004 and is likely to contribute to a slowing in the group earnings growth rate in 2006, further modest circulation growth, helped by some new product launches, should ensure that 12% group earnings growth is achieved in 2006. INWS recently increased its H1 dividend by 25% to 3.75c, and the group remains on course to pay a total 2005 dividend yield of 4%.

### GLAXOSMITHKLINE 11479p Its all about the pipeline. BUY

Pharmaceutical stocks were left behind in the equity rally since November. However it should be noted that earnings, dividend yields and cash returns to shareholders are on the up. GSK is a pipeline story and its results today confirmed that. The company also reiterated its exciting R&D outlook for 2006. The next 12 months will see a host of key updates hitting the market, including 8 new products expected to enter Phase III development, 7 regulatory filings and 7 important product launches. These updates will keep sales forecasts ticking upwards over the course of 2006. The company reported revenues of £21,660m and EPS of 82.6p, representing year on year increases of 8% and 21% respectively, and beating consensus forecasts of £21,196m and 81p. GSK also increased its guidance for 2006 EPS growth. Consensus forecasts had indicated high single digit earnings growth for 2006, but the company now expects this figure to be around 10%. The company also confirmed that Cervarix will be filed in the US before the end of 06, and in Europe in March 2006. This confirmation is a positive for the company as there had been some speculation of a potential delay until 2007. GSK plans to buy back over £1bn in shares in 2006 and is currently yielding 3.5%. Similar to the re-rating that the Financials experienced during the last 2 months of 2005, we are expecting the Pharmaceutical sector and in particular GSK to return to the top of the performance table during 2006. Our medium term fair value for GSK is 1630p and at current levels the stock is a trading buy and core portfolio holding.

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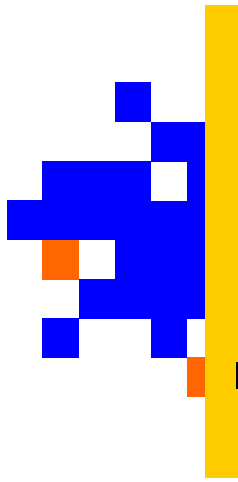
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### Earnings Calendar

13 Feb	Lafarge (FY05)
14 Feb	British Land (Interims)
15 Feb	Total (FY05)
15 Feb	BNP
15 Feb	BHP (Interims)
16 Feb	Eircom (Q3)
16 Feb	Diageo (Interims)
16 Feb	Bradford & Bingley
16 Feb	Daimler Chrysler (FY)
16 Feb	Kingfisher (Q4)
16 Feb	Reed Elsevier (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	Ready mix
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)
08 Mar	Irish Life & Perm
09 Mar	Horizon

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## Ryanair €7.65 All about the oil price

The oil price fell by 7% last week which is a positive for the airline sector. From the end of March this year Ryanair is unhedged in terms of the groups fuel requirements. Results from Ryanair were strong and Mr O'Leary remained his usually cautious self. However yield guidance was better than expected. The new plans for online check in are expected to deliver circa EUR30m in cost savings. A combination of a strong growth strategy, tight hold on costs (ex-fuel) and a possible normalisation in the oil price over the next 6 months puts Ryanair in a strong position. We maintain our €9.00 price target on the stock and are buyers at current levels.

## Eircom €2.05 Little newsflow, lots of speculation

Eircom issue Q3 results this week (Thurs) and the market will be focusing on broadband subscriber numbers and update on the Meteor business and revenue mix between Fixed and Mobile.

## Fyffes €2.18 Special dividend of 5.7c paid last week, small bolt on acquisition made

As announced before Christmas, Fyffes will paid a special dividend of 5.7c to shareholders on the register as at 08Feb. This dividend is expected to be paid 3rd March. Fyffes also announced that it is to acquire 60% of Nolem, a Brazilian producer of melons. The group produces nine million boxes of melons and is estimated to have an annual turnover of between €55m - €60m. It has been well flagged by Fyffes management that they intend to broaden their exposure to the Tropical fruit market and this acquisition confirms that view.

## Wilson Bowden (WLB.L) 1477p Sector outlook improving, good dividend yield play near term

Bellway, the UK home builder recently reported solid results 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.

## BP 644p - Commodity price retreat sends sector lower, valuation case remains compelling

Headline numbers were a little light mainly due to larger than expected charges for the damage caused by the Hurricanes in the Gulf of Mexico and the production stoppages at its ThunderHorse rig. However management confirmed that BP is to buy back over \$50bln of its own shares between 2006 and 2008 which equates to nearly 20% of its market cap. BP trades on an undemanding 10.4x this years earnings and is yielding 3.6%. Clients should look through the slightly disappointing results and focus on a highly cash generative business which is returning large amounts of cash back to shareholders. BUY

## William Hill 601p - Take profits above 600p and switch into Rank

Recently Hilton Group confirmed it had received several approaches for its Ladbrokes bookmaking business including a bid from CVC Capital for £3.7bln. 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 272.25p 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 2006: Bingo 48%, Casinos 24%, HardRock 25%, Blue Square 3%.

## ADIDAS €170 Buy sub €165

One of top European picks in 2005 and features again in our Dolmen Dozen for 2006. Recently purchased Reebok on the cheap and the deal should be earnings accretive (+13%) in less than 12 months. The story is very simple for Adidas. A quality Brand, strong market presence and increasing market share. The group has exclusive sponsorship rights to the World Cup this summer and has already upgraded guidance for its football merchandise division.

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23 Feb	Unidare
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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
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