



# Weekly Traders Update



13 Dec 2005

## **Brief Market View**

The key event in the US this week will be the meeting of the US Federal Reserve tonight to decide on US interest rates. Rates are widely expected to move from 4.00% to 4.25%. However the main focus tonight will be if the Fed no longer maintains the bias or language that has kept the Dollar in strong demand through out 2005. Currency markets and in particular, Euro/USD, is reflecting the view that the period of Fed tightening may be coming to an end (Euro/USD at 1.1950 +2% since Friday). We are expecting the Dollar to have a weak Q1 2006 as the market revisits the old concerns over the twin deficits and the interest rate differential between Europe and the US begins to close somewhat. Other highlights will be US Retail Sales on Tuesday and US CPI on Thurs.

In Ireland, **Irish Life & Permanent** issue a trading statement on Thursday and the share price has been strong with the market expecting a positive update from management (Irish Life €17.05). **Fyffes** issued a trading statement yesterday indicating that 2005 trading is ahead of market expectations and announced plans to pay a EUR20m (5.7c per share) special dividend in March 2006. However management also noted that 2006 costs would be €15m greater than forecasts due to the stronger oil price. We remain buyers of Fyffes at current levels. **Bank of Ireland** will be Ex-Dividend on Wednesday (19.7c). In the UK, **Lloyds** issued a trading statement yesterday in line with expectations and we rate the stock a "hold" for income portfolio's given the 7% dividend yield. **Centrica** issues a trading statement on Friday morning. In Europe, one of our top picks, Inditex are due to release a trading statement.

## **Fyffes €2.13**

The Fyffes share price fell 5.75% (13c) yesterday as the company warned that 2006 costs would be higher than previous expectations by circa €15m. However management confirmed 2005 trading was ahead of market expectations and also that a €20m (5.7c) special dividend would be paid to shareholders in 2006. Shareholders on the register on 10th Feb 2006 will receive the special dividend on 3rd March. We remain buyers of the stock following yesterday's weakness and expect the stock to move towards €2.60 during Q1 2006.

## **Independent News & Media €2.47 - Upbeat trading statement expected 22nd December**

Management of Independent News & Media confirmed they expect cost cutting measure and rising advertising revenue from growing markets to boost its operating margin to 20 percent by mid-2007. The group posted an operating margin of 17.6 percent for the half year to September and expects it to reach 19 percent by the year-end, and then 20 percent "within the next 18 months", Chief Operating Officer Gavin O'Reilly told UK Journalists last Friday. Management also confirmed that they expect profits for the group to be north of EUR350m. Earlier this year Independent News & Media bought a 26% stake in Indian Newspaper Group JPL (Jagran Prakashan Ltd) for circa \$33m and management remained bullish on the prospects for the high growth market. The Indian market represents a geographic zone of similar size to the enlarged European Union. Revenues from the JPL group grew by 20% last year and is expected to IPO next year. We remain bullish on the prospects for INWS looking into 2006 broth from a trading and core portfolio holding perspective.

## **DCC €16.50**

Following the sharp sell off in the DCC share price we upgraded the stock to Buy on 1st November. The stock has recovered well since then and we feel there is further upside in the share price towards €17.50 looking into Q1 2006. DCC remains a well diversified business with the following profit split by division: Energy 39%, Healthcare 12%, Foods 10%, IT 21%, Environmental 4%, Other 14%. With regard to the IT division, it is expected that it will contribute less than 15% of group earnings next year and the recent share price movement has reflected that the initial market reaction to the profits warning may have been too pessimistic. A decision on the Fyffes case is expected in the next two weeks.

## **RBOS 1692p - Take Profits at 1700p or above.**

Trading update was in line with expectations with some minor concerns over margin erosion in the US market however no major positive which will prompt analysts to upgrade earnings estimates for next year. RBOS has been a poor performer during 2005 and we view the 10% rally in the share price from its low of 1520 in late October as an opportunity to exit RBOS positions. We are recommending clients to sell RBOS and switch into Bank of Ireland at current levels.

## **William Hill 522p - A good bet into Xmas and Q1 2006**

A string of unfavourable betting results and its forthcoming exit from the FTSE100 have kept the William Hill share price in a downward trend over the past two months. However the acquisition of the Stanley Leisure betting shops is going according to plan, management have re-affirmed their commitment to a £350m share buy back, the valuation remains undemanding at 12.5x 2006 earnings and the stock is paying a dividend yield of 3.5%. We expect the stock to re-visit 575p over the next 3 months.

## **Next 1506p - Take profits above 1500p**

Initiated coverage of 3 retailers in late October. Next, GUS and Kingfisher were our three picks and with the exception of Kingfisher, they have performed well. Overly pessimistic valuations and a dooms day scenario on UK consumer spending were the key drivers of the particularly weak sector performance in 2005. However the sector has recovered well following a rate cut in the UK and some marginally better macro economic data.. We recommend clients take profits in NEXT following the 17% rally in the share price while we remain holders of GUS and Kingfisher at current levels.

## **Adidas €156.58 - Ready for World Cup 2006**

One we have recommended all year and 2006 could be an exceptional year for the group given its exclusive sponsorship of the World Cup in Germany. Management last week confirmed they expect to sell 10 million match footballs in 2006. Head of Marketing for Adidas also confirmed they expect stronger sales in their soccer unit (20% of group sales) and expect to hit €1bn in 2006 for that division. The recent purchase of Reebok will also be earnings enhancing for the group by H2 2006.

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