

Weekly Traders Update



Brief Market View:

All eyes on the Oil price following the 7% rally in the price of crude last week pushing it to above \$67 per barrel. Slightly lower this morning to \$66.37 and despite a weak close in the US on Friday, European markets has pushed ahead and the FTSE is stronger this morning as the Oil and Extraction sectors reach new highs. The quarterly earnings season has pretty much ended with over 65% of the S&P500 reporting earnings ahead of expectations. Similarly strong earnings in Europe have pushed the German market to its highest level in 3 years. The imminent German election will hold the key to any further gains near term from a labour market restructuring and pro business perspective.

It is a particularly important week from an economic data perspective with US CPI (Inflation) and PPI are due for release. At the last Fed meeting (9th August) their statement highlighted that "core inflation has been relatively low in recent months". The market is expecting a benign reading of +0.3% MoM. The impact of the higher oil price is more pronounced on the full year CPI reading which is expected to hit 3%. A big week for the UK also with the Bank of England minutes eagerly awaited (Thurs) following comments from the Bank of England Governor (Mervin King) last week that another UK rate cut is unlikely. The much talked about retail sector will remain in focus with the release of UK July retail sales (exp.-0.5% Thurs). From a stock perspective we are recommending Bank of Ireland, Tullow Oil, Glaxosmithkline, Hilton Group and are watching Kingfisher for any weaker post results.

Technically 10,300 is a key support level on the DOW and we are relatively cautious on the US markets given where the Oil price is trading. Euro/USD should remain in a 1.20 / 1.25 range near term while we expect Sterling to strengthen near term pushing Euro/GBP back towards 0.67.

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Bank of Ireland - Buy €13.13

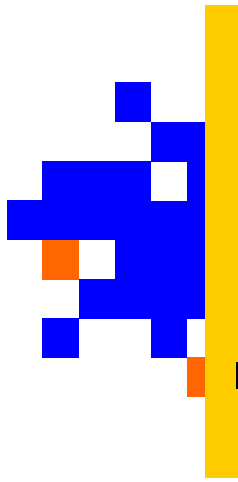
The shares in Ireland's second largest retail bank have fallen almost 6% since the beginning of August as the market reacted to the disappointing results from RBS. With 24% of its profits coming from the UK through its Bristol and West subsidiary, the reaction within the market was understandable to 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 over done. 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.

GlaxosmithKline - Buy 1311p

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 setbacks 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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BHP Biliton

Mining stocks continue to be the best performing stocks year to date. Commodity prices are hitting year highs and renewed M&A activity has continued to keep the sector on the front foot. BHP has been a good performer over the past 6 weeks but we would not be committing new money to the stock at current levels. Upside from current levels may be limited and should we see any near term weakness in the oil price we would expect BHP to experience some short term weakness. **HOLD**

HILTON GROUP 308p

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. **Q2 Results 25th August. BUY.**

Other stocks to note

BUY

Grafton Group	-	Poor price action of late but fundamental story remains strong
Ryanair	-	Well hedged for Oil out to March 2006..buy sub €6.50
Tullow Oil	-	Breaking out of recent trading range, re-rating to continue on oil spike and expecting earnings upgrades.
CRH	-	Good run of late, but macro story in the US remains positive.
Smith & Nephew	-	Muted reaction to results but outlook remains positive
O2	-	Corporate story remains in play
BMW	-	Results disappointed, new 3Series to drive earnings going forward
Adidas	-	Reebok deal very positive, earnings enhancing in Year 2
Deutsche Bank	-	Leading European financial, positive results recently, good biz mix
Scottish Power	-	Defensive play, good yield, possibility of corporate activity
GUS	-	Good performance post results, cited as possible break up target.. Burberry sale to be completed by year end, Experian could be next?
Party Gaming	-	Higher risk play, substantial earnings potential
Kingfisher	-	Market remains very challenging but expect M&A activity (buy on weakness post results
Reuters	-	Disappointing performance post Q2 strategy update, longer term story remains promising but market not willing to wait. Hold

Switch Ideas

Sell Astrazeneca / Buy Glaxosmithkline	Glaxo has under-performed post Q2 earnings
Sell Volkswagen / Buy BMW	VW overbought—BMW better pipeline
Sell McInerney / Buy Grafton	Better upside in Grafton, McInerney premium
Sell AIB / Buy Bank of Ireland	Bol under performance overdone
Sell Vodafone / Buy O2	VOD sell into strength, Japan still an issue

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