



Weekly Traders Update



18 April 2006

Brief Market View

Equities having somewhat of a nervous period given the oil price back above \$70, US 10 Year bond yields at 5% for the first time in four years and continued question marks over the likely aggressiveness of the ECB on European rates. Currency markets remain volatile as the Dollar deals with some weaker US economic data, the prospect that US rates are approaching a peak and the expectation that European rates may rise faster than expected. UK stocks reporting this week are Prudential and Rio Tinto on Thursday and WPP on Friday. Q1 earnings season gains momentum in the US this week with a large number of bluechip names reporting. Highlights in the US this week will be Yahoo & Motorola who report on Tuesday. Apple, Ebay, Intel and Pfizer report on Wednesday. Nokia, Bank of America, Google and Merck report on Thursday. In Ireland we are buyers of Fyffes, Kerry Group, Bank of Ireland and Paddy Power. Financials and Insurance stocks in the UK look attractive at current levels as we are buyers of HBOS, Lloyds, RBOS, Aviva and Legal & General at current levels. European picks for traders are Adidas, Deutsche Bank and BMW at current levels.

Adidas (€165.10) Upbeat analyst presentation

- ◇ At an analyst presentation in London last week, Adidas offered the market reassuring guidance regarding the firm's takeover of Reebok when it raised its mid-term sales guidance, issued upbeat net profit forecasts and revealed it now expects greater synergies from the integration of Reebok.
- ◇ Guidance upgraded: Adidas detailed its 2006 net profit forecast and slightly raised its medium-term sales outlook. Net profit for 2006 is now guided to be c.€500m, up c.31% on last year's €383m. Previously, the company stated that it expected double-digit percentage net profit growth this year, without providing a specific target. Adidas also said last week that net profit would increase at a double-digit rate for each of the next three years. Adidas also said that it now expects high-single-digit sales growth for the years 2007 to 2009. Previously, the company had projected medium-to-high single-digit sales growth in the medium term.
- ◇ Increased synergies: Adidas also raised its estimates for synergies generated by the Reebok purchase. Chief Executive Herbert Hainer said the integration of Reebok will generate annualised cost savings of EUR175m and annual sales synergies of EUR500m, which will be fully realised by 2009. Adidas previously said it expected cost synergies of EUR125 million.
- ◇ New deals: Adidas also recently announced that it had won a key 11-year merchandising deal from the NBA in the US as a result of the Reebok takeover. Reebok had in the past held key NBA rights. Reebok also revealed that Thierry Henry of Arsenal and France, had agreed to become the new face of the brand, switching from rival Nike in a five-year global deal from 1st August. This deal will help Reebok to boost its football presence significantly.
- ◇ Share split: Adidas recently announced that it is proposing to split its shares on a four-for-one basis. Adidas shareholders will be asked to vote on the proposal at the AGM, which will take place on 11th May. This move should improve liquidity in the stock and make the shares more attractive to private investors.
- ◇ Conclusion: Adidas is trading at a c.11% discount to its peers, but given Adidas' stronger earnings growth, our view is that this valuation gap should close over the course of 2006. Our 12 month price target of EUR175 is based on 14x 2007 eps of EUR12.5: **BUY**.

Fyffes (€2.20) Supreme Court Appeal & Blackrock Property Circular issued

- ◇ SC appeal : Fyffes has announced that it intends to appeal to the Supreme Court, the High Court judgement in its case against DCC. According to the announcement, the decision to appeal follows a "detailed analysis of the judgement by the directors and by the company's counsel."
- ◇ Less costly : Even though it is expected that the whole Supreme Court process of submission, response, hearing and judgement could take up to 1 year, the smaller legal teams involved should ensure that the total legal bill for both sides is less than half what it was for the High Court case (c.EUR9m).
- ◇ Minor overhang : Even though the move does create the risk of further legal costs for Fyffes, it is unlikely to act as a significant overhang for the share price as the market has previously factored in a DCC win, and Fyffes' share price achieved its 52 week high of EUR2.70 last September even with the potentially more costly High Court case still unresolved.
- ◇ Hidden value : A much more significant driver of Fyffes' share price this year is likely to be the EGM circular detailing the group's 25 revalued properties. This is now expected to be sent to shareholders within the next week, keeping the Bluestone listing on course for early May, which could be an important catalyst for exposing the group's hidden property value.
- ◇ Potential offsets : Our view of the extra tariff costs from the new EU banana market rules is that they are a sector-wide problem rather than a company specific issue, and there may be scope to pass some of them on in the form of price increases. Also, given the fact that both Fresh Del Monte and Chiquita were loss-making in Q4 2005, and that Fresh Del Monte is currently for sale, there is the potential that the new EU regime results in Fyffes and its net cash balance of €160m participating in sector consolidation which results in extra cost efficiencies providing another offset for the extra tariff costs.
- ◇ Attractive upside : With Fyffes' net cash per share currently 46c and the 25 of its Irish and UK properties conservatively revalued at 57c per share, even valuing the fruit (not just banana) business at a conservative rating of 8x earnings, the current share price of EUR2.20 is implying a sustainable eps of 14.6c for this business. A fairer estimate of the sustainable eps of this business is likely to prove to be 18c, where the company's eps should recover to in 2007, giving our current 12 month price target of EUR2.50 (14% upside)

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Earnings Calendar

DATE	COMPANY	RESULTS
19-Apr	Glanbia	Ex-div
19-Apr	INMS	Ex-div
19-Apr	Kerry	Ex-div
19-Apr	McInerney	Ex-div
20-Apr	SAP	Prelim Q1
20-Apr	Iona	Q1
21-Apr	WPP	Q1
25-Apr	Tesco	Prelim FY
26-Apr	Imperial Tobacco	H1
26-Apr	AIB	AGM
26-Apr	FBD	AGM
26-Apr	IL&P	Ex-div
27-Apr	AstraZeneca	Q1
27-Apr	GlaxoSmithKline	Q1
27-Apr	Bayer	Q1
27-Apr	Altana	Q1
27-Apr	Siemens	Q2
27-Apr	Daimler Chrysler	Q1
28-Apr	Reckitt Benckiser	Q1
28-Apr	Puma	Q1
28-Apr	Volkswagen	Q1
28-Apr	Elan	Q1

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