



Weekly Traders Update



Brief Market View:

Quite a volatile start to the week in Europe this morning as the hung parliament in Germany raised concerns over future growth in Germany and labour market reforms. The Euro has fallen from 1.2450 last week to 1.2140 this morning following the failure of Merkel's CDU party to take an overall majority. Sectors most widely effected this morning have been the Auto Sector and Utilities. Both sectors are significant employers in the German market and labour reforms were expected to be widespread and benefit company profit margins and production efficiencies. A relatively quiet week from a news flow perspective. The US Federal Reserve meet on Tuesday and is expected to raise US Rates by 0.25%. The Bank of England MPC minutes are released on Wednesday morning and will be closely watched with regard to the future directions of UK interest rates from 4.50%. Vodafone presents to analysts today in London and the market will be focusing on 3G sales and Japanese pricing/competition. Tesco reports H1 results on Tuesday morning. We are buyers of BOC Group, GUS and Wolseley outlined below. In Germany we would use any prolonged weakness as a buying opportunity in Deutsche Bank, Adidas, PUMA AG, BMW and Siemens.

BOC GROUP 1165p

Takeover Speculation: BOC's share price has enjoyed strong gains recently on the back of mounting speculation that a £6.7billion bid was imminent for the industrial gases company. Rumours have centred on chemicals group BASF, which is believed to be preparing a share offer of between 1330p and 1350p. However some reports are suggesting that a bidding war may ensue, with a take-out price in region of 1500-1700p being touted. **Valuation/fundamentals:** A minimum 1150p - 1200p would place BOC on an average rating of a basket of the peer group (The latest speculative run leaves BOC still standing on a discount to the other gases players) and this is more than deserved based on rising return on capital, ambitious capex schedule, cost cutting at Edwards, and generally buoyant trading not least in Asia where BOC has Group operating profit of 41%. **Outlook:** The above positives remain intact, and 2005 prelims (Nov 17, 2005) should highlight generally good trading, the strong balance sheet, capex timetable and further progress at Edwards. Risk /reward therefore suggests that **downside from here remains relatively limited**, given the likely improvement in the rating based on fundamentals, while speculative interest may well continue for now driving the shares higher in the short term. **Summary:** Speculation seems unlikely to dissipate in the short term, and we would point to BOC's strong balance sheet, capex programme, cost cutting at Edwards and late cycle defensive gases contracts as key attractions to this stock.

GUS 870p

Recent performance: UK retailers have suffered a torrid time in recent months as they struggle amid a slowdown in consumer spending and difficult trading conditions. With the bulk of GUS' earnings generated at its Argos and Homebase divisions, GUS has been among the stocks to be affected by the negative sentiment towards the sector. Same-store sales at Argos have fallen for the last two quarters and the company expects that this trend will continue for the next 12-18 months as consumer spending continues to slow. While Homebase has fared slightly better than its main competitor, B&Q, the DIY chain has suffered in line with weakness across the sector but in recent months it has shown slight increases in market share. **Experian spin-off:** But what sets aside GUS from its peers is the imminent demerger of its North American Experian arm. GUS is widely expected to spin off the information services business within the next 12-18 months. In contrast to Argos and Homebase, Experian has enjoyed considerable success as of late- it recently reported 26% growth in Q1 sales and looks set to continue this trend. Consensus forecasts currently indicate that GUS' current share price fails to reflect the potential upside of this de-merger. The minimum upside of such a deal from current levels is c.10%. **Valuation:** The stock trades at 14x05 earnings, in line with the sector despite much more resilient earnings than its peers and offers a good yield of 3.5%. **Conclusion:** Concerns over consumer spending will persist, but GUS' recent Q1 sales have shown that the company appears to be able to deal with the current tough trading conditions better than its rivals. The potential for the Experian demerger will help offset these concerns and buoy the share price in the meantime. **Next newsflow: H1 Trading Update 12 October**

Wolseley 1204p:

Wolseley and its international subsidiaries are engaged in the distribution and supply of plumbing and heating products along with building materials. The group operates under three categories-North American plumbing and heating distribution, US building materials distribution and European distribution. The north American market is the most important one for the group with 58% of sales and 59% of operating profit being generated from this region. The company is the best positioned European company to take advantage of the redevelopment of the Gulf Coast region following Hurricane Katrina. The most recent trading up-date from the company came in July (before the hurricane) and at that stage the company advised that growth rates in the second half of the year would be slower than in the first half. This caused a re-rating of the shares at the time, however the potential boost to profits post the hurricane has altered the markets view on the stock. The company trades on 14x 2005 earnings and 12.9% 2006 earnings, a near 10% discount to its competitors. The company which reports full year numbers on **26th September**, is also a beneficiary of the continuing strong US new homes market, and will also benefit from a more favourable US\$ rate compared to that prevailing in the first half of the year. **Buy**

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