



Weekly Traders Update



20 Feb 2006

Brief Market View

A quiet start to the week is expected with the US Presidents Day holiday today. Trade volumes in Europe should be light with the US market closed. Bid fever continued last week with two stories breaking on Friday afternoon. Lonmin, the UK mining company, announced they received an approach pushing the share price up 28%. Northern Rock rose 9% on Friday on rumours of a merger with Bradford & Bingley. The oil sector performed well last week despite Oil trading sub \$60 for the first time since the end of December. Oil has subsequently recovered off its lows following concerns over tensions in Nigeria. Highlights this week will be results from AIB on Wednesday in the Irish market. A number of leading stocks in the FTSE report this week namely Barclays (Tues), Anglo American (Wed), Reuters (Thurs) and Lloyds (Fri). From an economic data perspective, US CPI (Inflation) on Wednesday will be the highlight. Minutes from the FOMC (Federal Reserve) will be closely monitored for comments regarding future interest rate policy in the US. Closing the week in the US we can expect Durable Goods Orders which is expected to show a 0.8% drop MoM. In the UK market we are buyers of Rank Group, Glaxosmithkline, BP, Aviva, Legal & General, Vodafone and BHP Billiton. In Ireland our preferred plays are Fyffes, Grafton, Kingspan, Irish Life & Permanent, Tullow Oil, Ryanair, Independent News & Media and Kerry Group at current levels.

Paddy Power - Upgrading to BUY

FY results: Paddy Power will report full year results for the year ended 31 December 2005 on Wednesday, 1 March. The company is expected to report profit before tax and eps of EUR31m and 53c respectively, representing slight year on year decreases of 4% and 2%. Shares in Paddy Power underperformed in 2005 in the wake of unfavourable sporting results and increased competition. In November, Paddy Power announced that its gross win was some EUR4m short of internal expectations, and the shares struggled as a result of the subsequent downgrades. Shares in the bookmaker should see a reversal of fortunes in 2006 in line with the resumption of impressive earnings growth (+30%). The main driver of Paddy Power's earnings growth will be the continued growth of its online operations and the first contributions from newly opened UK LBO's (Licenced Betting Offices). The Cheltenham Festival, which is to take place from 12 to 17 March, could act as a potential near term catalyst for Paddy Power's share price. The recent withdrawal of a number of favourites from this year's event should have a stabilising effect on bookmakers' profits over the course of the festival. The absence of a host of notable favourites will mean that punters will be betting on a wider range of horses. Bookmakers across the board should benefit from this summer's football World Cup in Germany, particularly as the popularity of football betting grows. June is traditionally a quiet period for bookmakers, and this summer's competition will provide a welcomed boost to revenues. While shares in Paddy Power trade at a 20% premium to its peers, we believe that with earnings growth of over 30% per annum over the next 2 years likely and considerable potential for further growth in the UK, such a premium is justified. Our price target of EUR14.30, based on 17x 2007 eps of 84c.

Independent News & Media (EUR2.58) 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%.

BHP Billiton - Top pick in the UK Mining Sector 1100p target.

BHP Billiton is the world's largest mining group. The group's operations are divided into seven Customer Sector Groups (CSG): Aluminium, Base Metals, Carbon Steel Materials, Diamonds and Specialty Products, Energy Coal, Petroleum, Stainless Steel Materials. **Results:** BHP Billiton reported attributable profit (pre-exceptionals) of US\$4.4Bn for the six month period ending December 2005, in line with market consensus. Operationally, better than expected results from Base Metals, Petroleum, Diamonds & Specialty, while Aluminium, Stainless Steel and Energy Coal were marginally weaker than forecasts. BHP declared an Interim dividend of US\$0.175, representing a strong year on year gain of 30%. In addition, BHP Billiton committed to a \$2Bn global share buyback. **Costs Higher:** The US\$795m increase in costs from the previous December half was an increase of circa 8% across the business. The biggest drivers were the largely uncontrollable impact of higher raw material and energy prices. Labour and contractors was also a significant contributor to higher costs driven by the increased use of, and higher cost of, contractors. Particularly in the Australian iron ore and coking coal assets where costs were up 20% and 30% yoy, respectively. **Outlook:** The group remained bullish on the outlook over the next two years. Key points from the outlook statement were that management expect (1) Strong global, and in particular Chinese growth (2) Expect reasonable recoveries in Japan and Europe, US economy moderating Overall, BHP Billiton predicts strong market prospects for FY06/07. **Production Pipeline:** The 5 major and 2 minor projects approved during the period have increased the size of the project pipeline by US\$2.9b to US\$14.4b. This puts BHP is the strongest position in the sector from a pipeline perspective with production expected to be increased by 35% - 40% over the next 4-5 years as the pipeline is delivered. **Company info:** EBIT by division - Petroleum 21%, Aluminium 6%, Base Metals 28%, Carbon Steel 33%, Diamonds 4%, Energy Coal 3%, Stainless Steel 5%. **Valuation:** BHP trades on 12.5x FY2006 earnings and currently is yielding 2.75% BHP is the most diversified mining stock with also good exposure to the Oil sector. Price Target 1100p.

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Earnings Calendar

21 Feb	Barclays (FY)
21 Feb	Scottish & Newcastle
22 Feb	AIB (FY)
22 Feb	McInerney (FY)
22 Feb	Anglo American (FY)
22 Feb	Easyjet (Q1)
23 Feb	Paddy Power
23 Feb	Trintech
23 Feb	Readymix
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)
27 Feb	Pearson
28 Feb	Cable & Wireless (Q3)
28 Feb	Kerry Group
28 Feb	RBS
28 Feb	Datalex
01 Mar	HBOS (FY)
02 Mar	Aviva (FY Prelims)
02 Mar	Deutsche Telekom (FY)
02 Mar	William Hill
03 Mar	Rank Group (FY)
03 Mar	Fyffes (FY)
06 Mar	Taylor Nelson (FY)
06 Mar	ICG (FY)

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