

Weekly Traders Update



Brief Market View

US markets ended marginally lower last week but European markets (UK/Germany) underperformed with Oil & Extraction stocks leading the way lower. Another busy week of corporate earnings announcement with a number FTSE100 companies reporting Q3 results. Highlights in the UK this week will be interims from BP (Tuesday) and Prudential (Wed) while Aviva, BHP, Boots, BATS, Reuters, Smith & Nephew and Royal Dutch Shell all update the market with Q3 results first thing Thursday morning. Pharmaceutical giants Astrazeneca and Glaxosmithkline report mid-morning we are expecting positive news from both stocks. Glaxo remains our preferred pick in the sector and is looking attractive after recent weakness. One of our preferred European picks, Deutsche Bank, reports on Friday morning. In the US market, Amazon reports Q3 on Tuesday and software giant Microsoft reports after hours on Thursday. In the Irish market Elan report on Thursday.

Recent Weakness: Markets have been somewhat nervous over the past few days as profit taking in the best performing European markets (FTSE/DAX) sent the majority of sectors lower last week. Interest rates and Inflation are the two biggest concerns near term. Equities continue to look attractive relative to other asset classes and from an asset allocation perspective pension Fund Managers will continue to favour equities relative to Bonds for new cash inflows. Share buy backs, M&A activity, solid earnings growth and strong balance sheets continue to keep the medium picture for equities positive. The Irish market is looking decidedly better value after the recent sell off and this week we focus on stocks that offer good value with undemanding valuations and good dividend yields.

IRELAND - Some good value appearing.

CRH – BUY

Buying level: In line with some general equity market weakness, the share price of CRH has fallen by 10% over the last two weeks. Our view is that this weakness is starting to generate attractive entry levels in some Irish stocks which had started to appear quite fairly valued in recent months. US growth: The main drivers of this strong growth were the group's US materials division and its US products & distribution division. The profitability of the US materials division was driven by volume and price increases, and the US products & distribution division continued to be supported by the very buoyant US housing market. Crucially, CRH is still forecasting no year on year deterioration in its 2005 margin. Acquisition growth: Concerning the more important second half of the year, CRH is expecting to continue to benefit from strong markets at its US operations and price increases, offset to some extent by higher energy costs. Including the Stradal acquisition, CRH has spent €190m on acquisitions since the end of June and continues to work actively on opportunities for acquisitions across all its operations. Sector consolidation: We continue to be of the view that a multiple of 13x forward earnings is achievable for CRH, given the multiple range of 14x to 16x forward earnings at which deals are continuing to take place in the cement sector, and the group's historic average forward multiple of c.14x. Attractive upside: As a result, our current 12 month price target for CRH of €25, is based on 13x 2006 eps of €1.92, which we previously upgraded from €1.86 on the expectation of an increased acquisition spend in H2 2005 : **BUY**.

GREENCORE- BUY

Recommendation upgrade: Following the recent decline in the Greencore share price we upgrade our recommendation from NEUTRAL to BUY, ahead of the company's results for the year ended 30/09/05 on Tuesday, 22nd November. Upcoming results: Our view is that the group will comfortably achieve the consensus eps of 34c for the year ended 30/09/05, representing 5% growth on the prior year eps of 32.4c. However, further detail in the results' statement in relation to the recently announced Oldfields acquisition could create the potential for some modest upgrades to 2006 earnings forecasts. Attractive upside: As a result, in the aftermath of the full year results' announcement, we would expect the consensus 2006 eps to rise by c.2% from 35.8c currently to 36.5c. Given the potential for such continued mid single digit earnings growth, the shares would once again appear attractively valued at 9x 2006 eps. Our new 12 month price target of €3.65 is based on 10x 2006 eps of 36.5c. Low risk: In addition to Greencore paying a dividend yield of c.4% for waiting for this upside to be achieved, shareholders on the register in early December will pick up the 2005 final dividend per share, expected to be c.7.75c (2.4% yield) for holding the shares for less than 2 months.

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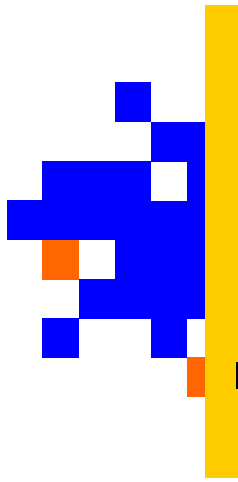
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Events Calendar

October
27Oct Elan (Q3)

November
01Nov Viridian (Interims)
03Nov DCC (Interims)
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Bank of Ireland €12.58

Poor performance last week on very little newsflow. Stock looking attractive at current levels and happy to buy on short term trade and for portfolio's. Valuation also undemanding at 10x 2006 earnings and 4.1% dividend yield. Next newsflow will be H1 earnings on 24th November. **BUY; near term target €13.50**

Eircom - BUY (€1.89)

Takeover speculation: As the recent speculation that Swisscom was preparing a takeover bid has proved unfounded, Eircom's share price has fallen by 17% over the past 2 weeks. Our view is that this may have created a buying opportunity **under EUR1.90**. B&B investment: The recent takeover speculation came to an end when Australian investment fund, Babcock & Brown, announced that it had purchased a 12.5% stake for A\$405m as an investment, and that the stake building had not been the first step of a takeover bid from an industry player. This means that the B&B investment was made at an average price of c. 1.90 per Eircom share (EUR255m divided by 134m shares). Earnings dilution: Following the recent 5 for 12 rights issue at EUR1.35 per share, Eircom's forward eps, for the 12 months ending 31/03/07, falls from c.21.4c to 17.2c. This is the first Eircom financial year in which Meteor will make a contribution. Eircom pays a Dividend Yield is 5.9% and we are expecting 8% upside in the price in the medium term.

INDEPENDENT NEWS & MEDIA – BUY (€2.28)

Recommendation upgrade: our view now is that INWS has the potential to outperform the Irish market from current levels, and as a result we upgrade our recommendation again to BUY. Recent results : INWS recently announced its results for the 6 months ended 30/06/05. Pre IFRS, or Irish GAPP eps, of 7.35c, was in line with the forecast range of 7.2c to 7.5c and was an increase of 11% on the H1 2004 eps of 6.6c. Advertising growth: Such double digit year on year earnings 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%. Outperformance potential: Our view is that a rating of 15x forward earnings is achievable for the continuation of such double digit earnings growth in 2006, and our new 12 month price target of €2.70 is based on 15x 2006 eps of 18c. 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 4.2% for waiting for this further upside to be achieved.

Other names in the Irish market to watch:

- Anglo Irish Bank** Results due 23rd November, looks attractive sub €11
- DCC** Stock off 12% since mid Sept, all eyes on Fyffes case ruling, sub 10x earnings post profits warning on IT division (10% of group profits). One to watch on any weakness post court ruling expected in November
- Paddy Power** Sector has been an under performer on bad betting results but growth remains strong both in Online business and UK expansion, worth a look sub EUR14
- Kerry Group** EUR17.50 strong support for the stock since Oct04. Stock off 15% post results on outlook on raw material costs. US peers also reported weak numbers., A medium term portfolio pick at €17.40 - €17.50
- Irish Life & Perm** Another one of the large cap Irish stock that has sold off on no news. Sector fundamentals remain strong and UK peers have reported strong results of late. Undemanding valuation on 10x 2006 earnings and 4.20% dividend yield
- Kingspan** Has performed poorly in line with broader Irish market weakness but earnings story remains strong and Century Homes acquisition is performing well. Consensus expecting 15% EPS growth in 2006 At 14x 2006 earnings the stock is not cheap but technically €9.20 looks like a good entry level on any further weakness
- Tullow Oil** Buyers at current levels, good trading stock of late and M&A activity in second line stocks within this sector continues to keep Tullow Oil on a lot of analysts front pages.

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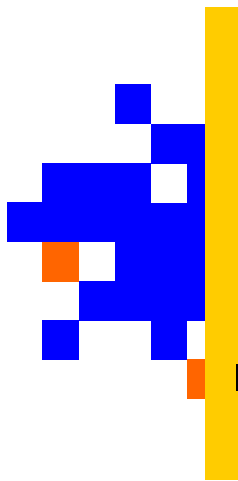
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VODAFONE - Buy ahead of Q3 results 15th November (143.5p)

Vodafone shares trade on 6.0x EV/EBITDA, in line with the broader sector despite having a much stronger growth profile. On a PE of 11.9x it is close to a 10% discount to the UK market. Its dividend yield of 3.2% is supported by a further 5% in the form of share repurchases. (The company has bought back £3bn of its own shares ytd out of a planned total of £4.5bn) Fears over Japan – The Japanese market is only 3% of group EPS in 05/06 and 1% of the growth expected from the group over the next three years. Similarly markets such as Germany, UK and Italy are only contributing around 10% of the growth forecasted for Vodafone over the next 3 years. Results due Nov 15th - We are expecting strong interim results on November 15 and similarly strong guidance for 2006/07. The market will also be looking for an update on Capex, ARPU (Avg revenue per user) and Group margins. It is anticipated that group margins will fall by circa 1%. Vodafone will also provide further details on the One-Vodafone programme (cost cutting/synergies) which should be well received by the market.

Next (1321p) has managed to keep earnings flat YoY in 2005 with LfL sales down 9%. The company has embarked on a significant amount of new space opening during 2005 increasing capacity across the UK and Europe. The group is now trading on an historic trough earnings multiple of 9.9x 2006 earnings and is yielding 3.5%. The company boasts the strongest ROCE in the sector and recoups new store opening costs in 17 months. The company has been actively buying back shares in the market in recent weeks and has historically been a reasonable indicator of management confidence in their underlying business during difficult trading periods. Next will update the market re Christmas trading on 5th January and any material improvement in sales could be met with a good rebound in the share price. **BUY target 1450p**

GUS (832p) recently issued its Q3 trading update and the share price is unchanged post results. GUS is a well diversified business through its ownership of Argos, Homebase, minority Burberry stake and Experian in the US. The group remains a break up story and it is widely expected that management will spin of the US credit information company Experian in 2006. The US operations (Experian) are currently valued at circa. 12x earnings which is a significant discount its peers that trade on between 17x and 24x earnings. 50% of group revenues are outside the UK market and while LfL data for Argos and Homebase were both in negative territory they were not as weak as analysts had expected. The likelihood of a UK rate cut and better sales trends into year end should push the stock higher from current levels **BUY; target 930p**

Other stocks on the UK buy list are:

RBOS	8.4x 2006 earnings, 4.3% dividend yield, valuation argument to drive better performance in Q4 for Banking sector
William Hill	Sector underperforming on poor betting results, Stanley Leisure deal makes sense, div yield of 3.5% and 13x earnings and £300m share buy back
Glaxosmithkline	Results on Thursday, one of our top picks in UK for year end rally
BOC Group	Takeover story, poor performer of late, happy to buy here
BHP Biliton	800p good entry level, Oil production cut due to Hurricane impact
Legal & General	Oversold post news of possible impact of Tax changes in the UK
Aviva	Recent results quite good, expect sector to outperform in Q4
HBOS	Performed in line with sector of late, undemanding valuation and good dividend yield
BP	Results due on Tuesday, production outlook key
O2	Significant takeover premium but earnings and revenue trends remain very strong
Tesco	Poor performer of late, growth remains on track
Reuters	Results on Thursday, cost savings programme and license revenue trends will be key

Our European Buy list remains

Deutsche Bank	Results on Friday, cheap valuation and good share buyback programme
Adidas	Reebok deals very positive from earnings perspective
BMW	Strong September sales, 3Series ramp up going very well
Inditex	Strong store expansion programme, margins up 200 bps YoY
BNP Paribas	Well diversified European financial, cheap valuation and good yield

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