Weekly Traders Update

DOLMEN SECURITIES
member of the ERGO Group

24 April 2006

Brief Market View

Impressive quarterly earnings from companies on both sides of the Atlantic were among last week's main talking points. In the US the spotlight fell on Google and Apple, with investors welcoming both sets of results. Google reported that its first-quarter profit rose 60% as the company saw strong growth to advertisements on its own properties and overseas operations. As for Apple, despite a conservative outlook for it June-ended quarter and revenues coming in just shy of consensus forecasts, its shares performed well on the back of better than expected earnings per share and PC shipments.

So far 20% of S&P 500 have reported earnings. Of these 64% have exceeded market forecasts while 14% have missed forecasts. Overall pretty impressive numbers given the backdrop of higher interest rates and high oil prices. They also support our continued positive view on equity markets as per the recently released strategy document.

In Europe it was Nokia and SAP which dominated the headlines, with both companies experiencing mixed fortunes. Nokia posted stronger-than-expected earnings, including a 21-percent rise in profits for the first quarter owing to market share gains and strong sales, in particular in the United States. SAP, one of our top European picks for 2006, reiterated its guidance for 2006 and reported sales of software licences growing by 22 percent in the first quarter, beating analysts' forecasts as it continued to gain market share from rival Oracle. However earnings per share fell short of some expectations.

On Friday crude oil surged past a record $75 per barrel amid tensions over Iran's nuclear program and other supply disruption worries, marking the fourth consecutive day in a row that the contract had reached a new peak.On Thursday London Brent reached a record high of $74.22.
Mining stocks were hit hard towards the end of the week by a broad sell-off in gold and silver as speculators took profits after the prices of both metals raced to their highest levels in 25 years. However, the sell off proved to be overdone as shares bounced back on Friday.

Markets are likely to benefit from a full earnings schedule for the week ahead. In the UK, we have Tesco (Tuesday), Reuters (Wednesday), AstraZenenca & GSK (both Thursday), and insurers Legal & General and Aviva on Wednesday and Thursday respectively. In Europe German automakers Daimler-Chrysler and Volkswagen both report quarterly results on Thursday and Friday respectively. Also in Germany, Puma will report Q1 results on Friday, which will be watched closely for any read-across to Adidas.

On the economic front: Federal Reserve Chairman Ben Bernanke testifies before a Joint Economic Committee hearing on the prospects for the economy. Markets will look for any signs that an end to interest-rate increases is near. Other data to keep an eye on next week is the first estimate of first-quarter economic growth and the employment cost index for the same quarter. Both reports are scheduled for release on Friday.

In Ireland we are buyers of Fyffes, Kerry Group, Bank of Ireland, Paddy Power and IN&M. We are also buyers of Sterling Energy, which was recently added to our Dolmen Dozen. The company reports full year results on Monday. Our top picks among the UK financials are Lloyds and HBOS, and in the insurance sector we like Aviva. And following Thursday's correction amongst base and precious metal prices, and some knock-on share price weakness amongst the UK mining stocks, we re-iterated BHP Billiton as our top pick within the sector. We are also buyers of GSK, which reports Q1 results on Thursday. European picks for traders are Adidas, Deutsche Bank and BMW at current levels. In the US Apple is our current top pick.

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Earnings Calendar

Date	Company	Event
25-Apr	Tesco	Prelim F/Y
26-Apr	AIB	AGM
26-Apr	FBD	AGM
26-Apr	IL&P	Ex-div
26-Apr	Imperial Tobacco	H1
26-Apr	Legal & General	Q1
27-Apr	Aviva	Q1
27-Apr	AstraZeneca	Q1
27-Apr	GSK	Q1
27-Apr	Bayer	Q1
27-Apr	Siemens	Q2
27-Apr	Daimler Chrysler	Q1
28-Apr	Puma	Q1
28-Apr	Volkswagen	Q1

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Trading ideas for the week

Sterling Energy (27p) 2005 results' announcement

- Results announced: This morning, Sterling Energy announced results for the year ended 31/12/05. Turnover, EBITDA and profit before tax of £13.6m, £8.8m and £6.1m respectively were ahead of consensus forecasts of £12.9m, £6.5m and £4.4m, and were year on year increases of 18%, 13% and 45%.
- Production increases: Sterling also confirmed that a major amount of new production had recently started to come on stream from the company's Chinguetti oil field offshore Mauritania. Production levels to the end of March averaged 59,000 bpd and are expected to peak at 75,000 bpd in H2 2006.
- Drilling upside: Sterling also announced an exploration well programme in Africa for at least 5 wells to mid-2007, in which the company is largely carried, with an expansion of this drilling programme to enhance reserve and production upside anticipated. Last year, Sterling entered a farmout deal with ExxonMobil under which Exxon will fund a 4 well programme offshore Madagascar, with Sterling retaining a 30% interest in the exploration. A 4,000 km 2-D seismic programme offshore Madagascar has been brought forward and is now underway.
- Takeover potential: Harry Wilson and his team at Sterling Energy, Chairman Richard O' Toole, Graeme Thomson and Nigel Quinton, have a track record of successfully building and selling small cap oil and gas companies. This could also give the company some takeover potential this year, particularly when the sizeable cash balances of the majors are considered.
- Further upside: With proven and probable reserves of 21.6m boe, we recently upgraded our 12 month price target for Sterling Energy from 25p to 30p (11% further upside), which is based on the company's core NAV per share of 25p, plus a conservative current market value of the company's additional risked exploration upside of 5p per share, at a $50 oil price.
- Oil gearing: It is worth noting that Sterling's Chinguetti royalty agreement is linked to the realised oil price achieved, so even though $50 oil would imply a royalty payment of c.$5 per barrel, $73 a barrel oil would increase this royalty to c.$9.25 per barrel. With Sterling likely to generate EBITDA of at least £42m this year, a 30p price target would still only rate the shares at 10x cash flow per each of the 1,402m shares currently in issue. Sterling Energy's share price has risen by 57% since our BUY note of 01/12/05 : BUY.

BHP (£11.49) Further upside as production expands

- Correction last week: Following the correction last Thursday amongst base and precious metal prices, and some knock-on share price weakness amongst the UK mining stocks, we are re-iterating BHP Billiton as our top pick within the sector, with an upgraded 12 month price target of £12.50, based on 12x forward eps of £1.04.
- Production increases: All of yesterday's weakness would appear to have been driven purely by profit-taking rather than by any fundamental reasons, and BHP expects to increase production by c.35% over the next 5 years. This will be achieved by its US$14.4 bn sector leading project pipeline coming on stream.
- Product mix: BHP is also the most diversified of the UK mining stocks with no single division contributing more than a third of group operating profit. The c.20% of group operating profit contributed by the petroleum division gives the group a natural hedge against higher energy prices, with the steel and base metal divisions contributing 33% and 28% respectively of group operating profit.
- Earnings surprises: Continued record high base metal and oil prices resulted in better than expected results for the 6 months ended 31/12/05 from the group's base metal and petroleum divisions, and the buoyant global outlook for commodity prices is likely to help generate further positive earnings surprises over the next 12 months. Our view is that BHP can generate earnings per share of £1.04 for the 12 months ending 30/06/07, which is c.9% better than current consensus forecasts.
- Further upside: As a result, our new 12 month price target of £12.50 (9% further upside) is based on 12x forward eps of £1.04, and when combined with a dividend yield of c.2% provides a sufficient total return to justify a BUY recommendation at current levels. The company's $2 bn share buyback programme provides a further support for the share price : **BUY**.

GSK (£15.06) Reporting Q1 results on Thursday

- Q1 results: At noon on Thursday GSK will report its first quarter results. We are expecting sales of £5,625m and eps of 23p, and will confirm that GSK is on track to meet its current earnings guidance of 10% eps growth. The spotlight will be on the performance of company's key growth drivers, namely Advair (£860m +25%), Lamictal (£240m +23%), Coreg (£170m +28%) and the Avandia franchise (£320m +38%).
- Cancer data: GSK is expected to present important data at a high-profile cancer conference in the first week of June and we believe that this will be the next major catalyst for GSK's share price. The company will announce data for its key cancer drug, Tykerb. The drug is estimated to have potential for over $3bn in sales, and in anticipation of good news we can see shares enjoying a decent run in the weeks leading up to this conference.
- Upgraded guidance: In February GSK reported better than expected results for year ended 31st December 2005 and the company also increased its guidance for 2006 EPS growth. Consensus forecasts had indicated high single digit earnings growth for 2006, but the company now expects this figure to be around 10%.
- R&D upside: The company also reiterated its exciting R&D outlook for 2006. The next 12 months will see a host of key updates hitting the market, including 8 new products expected to enter Phase III development, 7 regulatory filings and 7 important product launches. These updates will keep sales forecasts ticking upwards over the course of 2006.
- Further upside: Given that the sector is currently trading at 19x 07 EPS we believe that no more than a 10% discount for GSK is appropriate to reflect its slightly slower than average earnings growth and therefore, our 12-month price target target price of 1,650p is based on 17x 07 EPS of 97p. The strength of GSK's pipeline remains the key driver of our investment case, and we expect to receive further evidence of its positive impact on earnings over the coming months, and therefore we reiterate our BUY recommendation on the stock

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27-Apr	AstraZeneca	Q1
27-Apr	GSK	Q1
27-Apr	Bayer	Q1
27-Apr	Siemens	Q2
27-Apr	Daimler Chrysler	Q1
28-Apr	Puma	Q1
28-Apr	Volkswagen	Q1

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