

Weekly Outlook



26 June 2006

Brief Market View

The Dublin market was slightly lower last week as shares struggled to find any real momentum. A lack of corporate newsflow and general inactivity on global markets meant that investors struggled to find catalysts to get share prices moving. The FTSE 100 climbed last week by over one percent, boosted by defensive stocks, although British Airways retreated as regulators probed the carrier's pricing policies. Wall Street posted modest losses last week. Investors once again fretted about interest rates and whether the U.S. economy is slowing down enough to persuade the Fed to stop tightening before recession kicks in. Stocks had rallied on Wednesday as stronger-than-expected earnings from FedEx and Morgan Stanley put investors' inflation fears on the back burner.

As we head into the FOMC decision on Thursday, market speculation about the course of Fed policy has been intensifying. Not only is a 25 point hike fully priced in for next week but another 25 point rise in August is seen as being very likely too, with more talk of a Fed rate peak at 5.75% or even 6%. We hold to our view that the Fed will pause at 5.50%. The market will continue to look for Bernanke to stamp his authority on the shape and presentation of policy. However, there are no major Fed speeches scheduled now until after the FOMC decision.

We do though have a very heavy week ahead for data. Economists are anticipating that reports on new home sales and existing home sales in May, due on Monday and Tuesday, respectively, will show that housing sector activity slowed from the previous month. The forecast calls for new home sales to drop to an annual pace of 1.15 million units in May from 1.198 million units in April. These economists believe existing home sales will slip to a rate of 6.64 million units in May from 6.76 million in April. On the consumer front, the Conference Board's consumer confidence index for June will be released on Tuesday. The forecast pegs it at 103.5, nearly even with the previous reading of 103.2. The University of Michigan's final consumer sentiment number for June is due on Friday. The forecast: 82.5, up from 79.1 previously. Personal income and consumption figures for May are due on Friday. Economist's forecasts: Personal income went up 0.2 percent in May, while personal consumption rose 0.4 percent, and the core PCE price index, an inflation gauge favored by the Fed, increased 0.2 percent. Growth in first-quarter gross domestic product, due for release on Thursday, is expected to be revised upward to show the U.S. economy expanded at an annual pace of 5.5 percent.

We also get lots of data in Europe. In Germany consumer price inflation for June is forecast to edge up while the ifo business survey is expected to edge lower in June and unemployment is set to fall again. The ECB will also be keeping an eye on the monetary and credit data, also due next week. In the UK watch for house price data, personal borrowing figures, balance of payments data, final Q1 GDP and consumer confidence.

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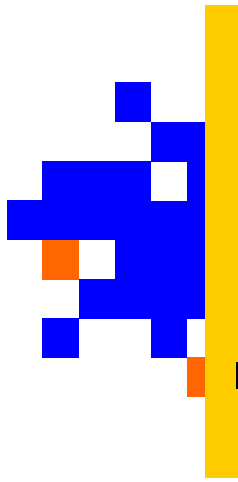
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Earnings Calendar

Company	Date	Event
INMS	26-Jun	Trading update
BOI	28-Jun	Ex-div
Fyffes	Last week June	Trading update
Grafton	1st week July	Trading update
Tullow Oil	4-Jul	Trading update
CRH	5-Jul	Trading update
C&C	7-Jul	AGM
DCC	10-Jul	AGM
Iona	14-Jul	Q2
Apple	19-Jul	Q3
TrinityBiotech	24-Jul	Q2
Vodafone	24-Jul	KPIs
GSK	26-Jul	Q2
AstraZeneca	27-Jul	Q2
Ryanair	31-Jul	Q1

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Trading ideas for the week

United Drug (€3.35) Upgrade from 'Neutral' to 'Buy'

- Buying opportunity: The 15% decline in United Drug's share price over the last 6 weeks has presented an attractive opportunity in a strong medium term growth story. In early May the company reported strong H1 results, with earnings up 14%, but it was the importance of its acquisition strategy that was of most significance.
- Acquisition growth: The results reflected the impressive performance of its three acquisitions from H2 2005. While the group's organic operating profit came in at 3.8%, the group's total operating profit, including acquisitions, came in at 13.5%. This point illustrates the importance of the role of acquisitions in the United Drug story and we expect this to drive the company's share price in the second half of the year.
- Capital strength: We feel that there is room for potential upside surprises to earnings over the course of the year as the company continues its "very active acquisition process". We expect the company to announce more acquisitions in the next six months. The company's balance sheet is in good health (c.5% gearing) and would indicate potential for further significant acquisitions.
- Pricing review: Uncertainty surrounding the outcome of the Irish government's drug pricing review will continue to act as a drag on shares until the issue has been clarified by the Government. The government is expected to reduce the pricing of medicines in Ireland by 5% to bring prices in line with the European average. The move will hurt sales at its ROI Wholesale and Contract Distribution divisions, which contribute roughly 50% of group operating profit. However the expected outcome is likely to have minimal negative impact on the company's earnings (c.2.5%). A decision is expected in Q3 of this year.
- Attractive upside: Given the company's track record of significantly stronger than sector average earnings growth we feel that the company should trade at a significant premium to its peers. Therefore our 12 month price target of €3.65 is based on 15.8x 06 EPS of 23c, and rates the shares at 20% premium to the sector. The company also pays a dividend yield of c.2.1%. BUY

Standard Life (£2.28) Discount creates upside

- Reduced range : Standard Life (SL) has significantly reduced the indicative offer price range for its upcoming IPO on 10th July. The original price range of £2.40 to £2.90 has been lowered to £2.10 to £2.70, and follows the 15% fall in the FTSE insurance sector index between 13/04/06 and 14/06/06. When combined with the preferential offer price discount of 5% being offered, this creates sufficiently attractive upside for eligible members and policyholders.
- FTSE eligibility : Assuming that the offer price is set at the mid-point of the lowered price range, and applying a 5% discount, would give an effective cost price per share of £2.28. This would value the shares at a 13% discount to 2006 year end embedded value per share of £2.63. An offer price of £2.40 would give SL a market capitalisation of £4.8 bn at flotation, making the company eligible for the FTSE 100 index.
- Discount valuation : SL is now targeting a return on embedded value for 2007 of between 9% and 10%, following the announcement of a pre-tax value of new business of £30m for Q1 2006. This would be a c.30% lower than the UK sector average 2006 return on embedded value of 13.9%. Discounting the current UK sector average price to 2006 embedded value (EV) of 1.4x by 30% would give a price to 2006 EV of 1x. Given that Standard Life has a high quality pension offering and a fast-growing asset management business, the company should not be valued any lower than its 2006 year end EV of £5.269 bn.
- Attractive upside : This translates into a 2006 year end EV per share of £2.63, generating our initial 12 month price target of £2.60 (14% upside). SL management has stated that the first dividend of 5.4p for H2 2006 will be paid in May 2007 and that it will pursue a progressive dividend policy. This is expected to represent c.50% of the 2006 full year dividend, implying a dividend yield of c.4.7% on the preferential offer price.
- Scale-back : SL has over 5m members and customers eligible for the preferential offer price. Given that they each can apply for shares worth a maximum of £50,000, and SL is planning to raise gross proceeds of £1.3 bn from the IPO, a major scale-back of shares subscribed for should be expected. Upcoming timetable : The deadline for receipt of application forms for participation in the offer is 10am on 5th July, and the final offer price will be announced by 9th July, with dealings in the shares expected to commence on 10th July : BUY.

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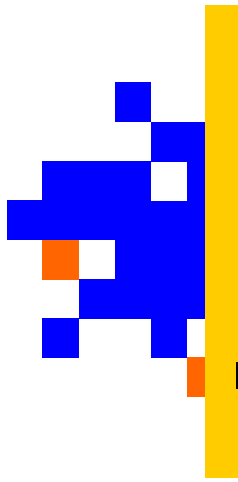
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Ryanair	31-Jul	Q1

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Trading ideas for the week (continued)

Carphone Warehouse (325p) Strong broadband take-up

- Recent results: On June 6 Carphone Warehouse reported results for the full year ended March 2006. The financials came in largely in line with forecasts, revenues were up 29% to £3,045m, PBT was up 33% and EPS was 23% higher at 11.7p. Its retail business, which accounts for 80% of group profits, recorded an impressive 38% growth in operating profit.
- Broadband take-up: Not only did the company report strong financials for the period, CPW reported that, in the eights week to 5 June, 340k customers had signed up for its free broadband package. This is well ahead of the expected 150k and would indicate that the company is on track to meet its target of 1.8m by 2009. While the higher than expected take-up could result in higher near term costs, we believe that higher profits in H2 are possible and in turn see upgrades to forecasts.
- Broadband Free Forever: In April CPW unveiled an aggressive plan to offer free broadband Internet to consumers who subscribe to its fixed-line voice packages called 'Broadband Free Forever'. Carphone said it will charge £21 a month for fixed-line voice calls and free broadband Internet, significantly cheaper than packages being offered by existing operators. CPW also announced plans to accelerate the unbundling process to achieve "full local loop unbundling" at 1,000 BT exchanges by May 2007, which would allow it to reach almost 70 per cent of the population in the UK. The company's earnings for 2006-07 will take a hit of £50m from broadband related development costs, but the company has said that it expects its broadband division to contribute a profit of £30m in 2007-08.
- AOL rumours: An article recently appeared in the Times newspaper suggesting that CPW is considering a £1bn bid for UK business of AOL. However the company subsequently played down the rumours, declining to comment on whether it was lining up a bid but said that it didn't 'need to buy expertise from outside'.
- High growth: Because of the extensive expenditure required in CPW's broadband roll-out over the next 2 years we look to earnings for 2008-09 to appreciate the potential of its Free Forever package. Our price target of 375p is based on 15x March 09 EPS of 25p. Our valuation represents a 10% premium to its peers in the non-food retail sector but we feel it is justified by its superior growth potential. CPW will report Q1 sales on July 27 and we will be looking for a further 100k additional broadband customers. BUY

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INWS (€2.27) Trading statement

- Buying opportunity: Even adjusting for the final dividend per share of 7c, which went ex on 19/04/06, INWS' share price has still fallen by over 10% in the last 2 months. This would appear to have generated an attractive buying opportunity.
Trading update : Independent News & Media has said it is on track to deliver double-digit full-year earnings growth after trading in the first half of 2006 was in line expectations. The group said it expected revenues to have grown by 3 percent in the first half of the year. Independent News and Media said ad sales are forecast to be up by over 3.5 percent during the period, with circulation expected to be over 3 percent higher than last year.
- Earnings growth : INWS generated an eps of 15.62c for the year ended 31/12/05, representing year on year growth of 17.2%. Further circulation and advertising revenue growth (10.7% was generated for 2005), when combined with an expansion of the operating margin from 19.3% to 20%, should ensure that further double digit earnings growth is achieved in 2006. The consensus market forecast is for further 11% eps growth in 2006 to 17.4c.
- Advertising growth : The Irish market accounts for a quarter of all INWS' revenues and nearly a third of all profits. Irish newspaper advertising is expected to continue to experience double-digit growth in 2006 and 2007, with consumer spending expected to grow here by at least 6% per annum in both years.
- Product launches : Even though the 6.4% circulation growth of 2005 represented a slowing on the 10% growth achieved in 2004, further modest circulation growth should continue to be generated in 2006, helped by some new product launches.
- Attractive yield : Given these continued double digit earnings growth prospects, it is reasonable that the shares should trade at an 8% premium to the current European newspaper sector average of 13.9x 2006 eps. As a result, our current 12 month price target of €2.60 (15% upside) is based on 15x 2006 eps of 17.4c. The shares also remain on course to pay a dividend yield of c.5.2% to shareholders over the next 12 months for waiting for this upside to be achieved : BUY.

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