

Weekly Traders Update



27 Feb 2006

Brief Market View

A busy week in the markets this week with a number of UK majors reporting. The meeting of the European Central Bank on Thursday will be the main highlight of the week in Europe. Better economic data last week has reinforced the view that the ECB will hike rates by 0.25% to 2.50% on Thursday. The important German IFO (Business Sentiment) Index was much stronger than expected last week rising to 103 for January. Corporate earnings continue to remain strong in Europe as does the level of M&A activity. The combination of both factors keeps Europe, and in particular Germany, as one of our preferred markets for 2006. In Ireland, Kerry Group report full year 2005 results tomorrow morning. Paddy Power report on Wednesday and we are buyers of the stock ahead of this update. In the UK the main focus of the week will be the Banks, with RBOS (Tues) and HBOS (Wed) both reporting full year numbers. Other stocks of note that are due to report are Cable & Wireless (Tues), Xstrata (wed), Aviva (Thurs), William Hill (Thurs) and Rank Group (Friday). Second line Irish stocks would appear to offer better value at the moment given the strong run by the major Irish stocks in recent weeks. Kerry Group, Irish Life & Permanent, Ryanair, Independent News & Media, Paddy Power, Fyffes and Tullow Oil are all on our buy list. We would advise client to take profits on stocks like AIB, Greencore, Eircom and Anglo Irish Bank. In Europe, Adidas and BMW look like the best near term picks and we are buyers at current levels. UK new money buys are BHP Billiton, Glaxosmithkline, BP, Astrazeneca, Rank Group, RBOS, Friends Provident, Legal & General and Vodafone

Astrazeneca

AstraZeneca is the second largest UK pharmaceutical company (by sales) with products concentrating on Cardiovascular, Gastrointestinal, Neuroscience, Oncology, Respiratory and Inflammation, and Infection. The company recently released results for the year ended 31/12/05, which saw sales increase 12% to \$23.95bn with EPS up an impressive 27% to \$2.91, in line with the company's guidance of \$2.85 to \$2.95. The company reported strong Q4 sales of all its blockbuster drugs with Crestor \$1.3bn (+38%), Nexium \$4.63bn (+18%), Arimidex \$1.2bn (+44%) and SeroquelTM \$2.76bn (+35%). Market reaction to the results however was muted as concerns about the company's product pipeline became the main focus for investors. News that the company was withdrawing its post-operation, anti-clotting drug Exanta, did little to reassure investors, while a court ruling on possible generic competition against its hypertension drug Toprol added to the company's woes. The market reaction to all this negative product news has been understandably negative with the shares now down 11.5% from its early January level of 2916p. Following the recent results from AstraZeneca and the subsequent share price weakness, the shares are now looking attractive on fundamentals. Earnings are expected to grow by between 10 and 15% in 2006 and 2007, however the shares trade on 13.8x 2006 earnings of \$3.23 and 12.9x 2007 earnings of \$3.49. This represents a discount of 19% to its European peer group, which seems severe given that pipeline issues exist for the majority of pharmaceutical companies. At current levels AstraZeneca is the most attractive yielding stocks in the sector (3.4%), while during 2005 some \$4.7bn was returned to shareholders via dividends and share buybacks. For 2006 this figure is likely to increase to \$5.5bn. AstraZeneca is certainly not unique in facing the patent and pipeline issues, however recent news-flow has focused greater negative investor concerns on the stock. The negative issues facing the company we believe have been fully priced into the stock at current levels and it's relative valuation compared to the sector leave the shares looking reasonable value at current levels.

Paddy Power - Upgraded to BUY last week

Last week we upgraded Paddy Power to BUY ahead of full year 2005 results on 01 March. The stock has recovered well from the profit warning late last year. Ahead of the Cheltenham festival the stock represents a good trading opportunity at current levels.

Vodafone - Cuts 2007 organic revenue guidance and margin guidance.

3G impairment : This morning, Vodafone has chosen to give a revenue growth update in conjunction with its IFRS asset impairment review. Under IFRS, finite lived assets such as 3G licences are reviewed annually for impairment. That this impairment review should result in a goodwill write-off "in the range of £23 bn to £28 bn", is not the main reason for today's share price weakness as major 3G goodwill write-offs under IFRS were already expected, and such asset issues are non-cash items in any event. Revenue update : The reason for today's share price weakness is that in conjunction with the impairment review, Vodafone chose to lower its forward revenue growth guidance (for the 12 months ending 31/03/07) to a "5% to 6.5%" organic range, from the previous official guidance range of "6 to 9%". That the company should chose this time to lower its forward revenue guidance looks like a bit of "kitchen-sinking", as in reality such growth is only very slightly lower than where current consensus forecasts were already. Acquisition growth : It is also worth noting that Vodafone has not reduced its forward earnings guidance, as its recent acquisitions in Sweden, India, South Africa and Turkey will provide a offsetting earnings support, more details of which will be announced on 30th May. Customer growth : Our previous notes had already assumed average group revenue growth of 6% over the next 2 years, driven by strong customer and traffic growth. This means that Vodafone's revenue growth should still significantly outperform the average of the incumbent telecom sector, which is expected to be c.3%. Incumbent discount : Even assuming 1% EBITDA margin erosion this year and next, Vodafone should still report an eps of 10.4p for the 12 months ending 31/03/06, growing by 3% to 10.7p for the 12 months ending 31/03/07. This means that at 10.5x consensus forward eps, the shares are now trading at a 16% discount to the European telecom sector, even though the group's medium term earnings growth prospects are significantly stronger. Attractive yield : Given that the company has committed itself to a 50% payout ratio for the year ending 31/03/07, a current year dividend per share of c.5p (4.5% yield) will be paid, rising to 6p (5.4% yield) next year : BUY.

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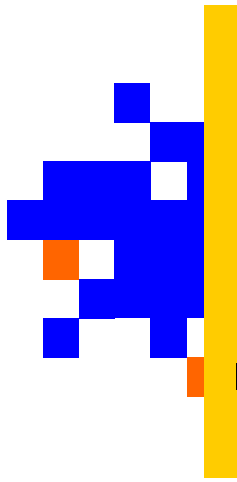
Main Dealing Line
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Earnings Calendar

| | |
|--------|---------------------------|
| 27 Feb | C&C Group (Trading) |
| 27 Feb | Pearson |
| 28 Feb | Cable & Wireless (Q3) |
| 28 Feb | Partygaming (FY) |
| 28 Feb | Kerry Group |
| 28 Feb | RBOS |
| 28 Feb | Datalax |
| 28 Feb | Taylor Woodrow |
| 01 Mar | Paddy Power (FY) |
| 01 Mar | HBOS (FY) |
| 01 Mar | Xstrata (FY Prelims) |
| 02 Mar | Aviva (FY Prelims) |
| 02 Mar | Deutsche Telekom(FY) |
| 02 Mar | William Hill |
| 02 Mar | Standard Chartered |
| 02 Mar | Ryanair (TrafficStats) |
| 03 Mar | Rank Group (FY) |
| 03 Mar | British Airways (Traffic) |
| 03 Mar | Fyffes (FY) |
| 06 Mar | Taylor Nelson (FY) |
| 06 Mar | HSBC (FY) |
| 06 Mar | ICG (FY) |
| 06 Mar | Kingspan (FY) |
| 07 Mar | CRH (FY) |
| 07 Mar | Redrow (H1) |
| 07 Mar | Volkswagen |
| 08 Mar | Irish Life & Perm |
| 08 Mar | Travis Perkins |
| 09 Mar | Horizon |
| 09 Mar | Royal & Sun Alliance |

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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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| 06 Mar | ICG (FY) |
| 06 Mar | Kingspan (FY) |
| 07 Mar | CRH (FY) |
| 07 Mar | Redrow (H1) |
| 07 Mar | Volkswagen |
| 08 Mar | Irish Life & Perm |
| 08 Mar | Travis Perkins |
| 09 Mar | Horizon |
| 09 Mar | Royal & Sun Alliance |

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