Weekly Traders Update

DOLMEN SECURITIES
member of the ERGO Group

27 Mar 2006

Brief Market View
The US Federal Reserve is widely expected to increase rates on Tuesday by 0.25% to 4.75%. From an equity market perspective, comments from Mr Bernanke will be crucial with investors hoping that the peak in US rates is in sight at 5%. Anticipation of this rate move from the Fed pushed the Dollar higher last week against the Euro with Euro/USD trading sub 1.20 towards the end of the week. Bank of Ireland issues a trading statement on Tuesday morning and we are expecting a strong update from the group. Life & Pensions sales are likely to remain strong as will the mortgage division of ICS. Tullow Oil reports full year numbers on Wednesday morning and the stock has been strong ahead of this news with the share price up 16% since the beginning of March. In a particularly quiet week in the UK, a trading statement from Sainsbury (Wednesday) is the only earnings announcement of note. In Ireland we are buyers of Bank of Ireland (ahead of trading statement this Tuesday), Fyffes, Kerry Group, Paddy Power, Abbey and Independent News & Media. Our preferred picks in the UK are British Land, Astrazeneca, Glaxosmithkline, William Hill, BHP Biliton, Legal & General, Lloyds, HBOS and Reuters. European names that are on our buy list currently are BMW, Adidas, Deutsche Bank and E.ON.

Aviva 831p Failed bid for Prudential puts Aviva in play
Aviva offer : The end result of Aviva's failed takeover over for Prudential of £7.08 per share could be that Aviva itself ends up in play. This is because the offer confirms Aviva's ambitions of building a global and US presence, admits that its would like to improve its growth prospects, and Aviva's European exposure may also be of interest to AIG or AXA. Several examples from the bank sector within the past 10 years show that when a UK financial demonstrates that is open to doing a transformational deal, it ultimately ends receiving a takeover approach itself. The end result of Abbey National's bid approach to Bank of Scotland, which was similarly initially publicly rebuffed, was that Lloyds TSB then made a takeover bid for Abbey National, which was only prevented from happening by concerns of the UK Trade & Industry Secretary over market share in current accounts. Similarly, both Bank of Scotland and NatWest were subsequently taken over themselves soon after making risky major takeover bids. NatWest was taken over by Royal Bank of Scotland, soon after it made a risky takeover bid for Legal & General, and Bank of Scotland was taken over by Halifax, soon after it made a risky takeover bid for NatWest. Therefore, one potential eventual outcome of Aviva's approach to Prudential last week could be a takeover approach to Aviva by one of the large global insurance groups such as AIG or AXA. Even on a stand-alone basis, Aviva's share price would appear to have further upside potential. Given that Aviva's 2006 return on embedded value of 16.8% is 21% stronger than the UK sector average of 13.9%, our view is that its price to embedded value (EV) should trade at a similar premium to the UK sector. New price target for Aviva is 950p.

Independent News & Media (€2.59) 2005 results announced
Last Wednesday, Independent News & Media announced results for the year ended 31/12/05. Revenue and earnings per share of €1.612 bn and 15.62c respectively were largely in line with consensus forecasts of €1.677 bn and 15.5c, and were year on year increases of 7.5% and 17.2%. This strong earnings growth was driven by circulation and advertising revenue growth combined with some cost savings. Margin expansion: These cost savings helped the group's operating margin to expand to 19.3% for full year 2005, from 17.6% for H1 2005, leaving the group on target to achieve further operating margin expansion to 20% in 2006. The buoyant outlook statements issued this morning for the group's businesses in Ireland and South Africa may facilitate some 2/3% upgrades to 2006 and 2007 forecasts. 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. Attractive yield: As a result, we now upgrade our 12 month price target for INWS from €2.70 to €2.75 (5.4% further upside), which is based on 15x 2006 earnings per share of 18.4c. This morning, the 2005 dividend per share was increased by 19.4% to 10.75c. With further 15% growth in the dividend expected in 2006, the shares remain on course to pay a dividend yield of c.4.8% in 2006, thereby providing a sufficient further 12 month total return to justify maintaining our BUY recommendation.

HBOS 977p Price target upgraded following strong results.
2005 results: HBOS recently reported a strong set of results for the year ended 31/12/05, with profit before tax and eps of £4.842bn and 86.4p respectively showing year on year growth of 13% and 11%. However HBOS has been an underperformer in recent weeks probably due to the results only meeting rather than beating consensus forecasts and contai ing no positive surprises, like RBS' and Lloyds' results had done in recent days. However, the bank's fundamentals remain very solid, with the 2005 net interest margin actually improving to 1.8% from 1.79% for 2004, the UK retail bad debts charge rising by less than expected in H2 2005, and the bank's cost/income ratio improving to 42.2% from 44.7%, driven by underlying cost growth of only 2.5%. Even if HBOS continues to target a lower share of new UK mortgage lending (c.15%) than its current market share of 21%, it still is the biggest beneficiary from the recovery in the UK housing market which has only started to take hold in recent months. **Accelerating growth:** The main area of positive surprise in HBOS' December trading statement was its sales performance in insurance and investment products, where bancassur ance is leading the way in Investment". HBOS' insurance and investment profit growth should accelerate from c.7% for 2005 to 9% for 2006 to 11% for 2007, driven by an ability to distribute to high net worth customers through its St James Place subsidiary, driven by its strong position in the UK group pensions market and driven by increasing UK retail demand for investment products. **Buyback support:** The other area of positive surprise in the December trading state ment was the continuation of the bank's share buyback programme, which has been set at £750m for 2006, as was initially the case for last year's £1 bn share buyback programme. HBOS' 2005 year end tier 1 ratio at 8.1% provides plenty of scope for further share price support from additional share buybacks this year. BUY

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Lloyds TSB 567.5p Strong Fundamentals and rumoured M&A activity
Lloyds TSB recently announced results for the year ended 31/12/05. Profit before tax of £3.47 bn and eps of 44.6p were ahead of consensus forecasts of £3.315 bn and 42p, and were year on year increases of 4% and 8% respectively. The results showed modest retail banking growth and good cost control being less offset by higher bad debts than had been expected. The results also indicated that there has been no further deterioration in retail unsecured credit quality since the bank's trading statement in December, and that the outlook for Scottish Widows is continuing to improve. This business and Lloyds' Insurance and Investments division in general is benefiting from a strengthening UK life and pensions market, as well as increasing bancassurance volumes. Wholesale quality: It is also worth noting that even though the 2005 bad debts charge as % of average loans was higher in retail banking, it was lower at the group's corporate lending operations as credit quality at the bank's Wholesale & International business remained strong. Takeover potential: In January 2005, we downgraded our Lloyds TSB recommendation from BUY to NEUTRAL, as our view was that the takeover speculation at the time represented an opportunity for some profit-taking. However, this year, with the bank's management significantly less "new to the job", having joined after June 2003, we see greater potential for an approach being made.

BHP Biliton 1019p- Top pick in the UK Mining Sector 1100p target...Sector strong this morning on upgrades
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. ***Buy sub 950p***

BP 666p Compelling valuation and strong fundamentals BUY
Recent Results: Q4 Clean Net Income (pre-exceptionals) came in at $5.3bn, 6% below consensus of $5.6bn, however this was still a 22% increase on the corresponding period for the previous year. There were however a number of items which impacted on this number, specifically (1) a $950m pre-tax hit from Gulf of Mexico Hurricane damage (Thunder Horse platform), (2) an $870m impact from the Texas Refinery explosion and (3) $467m of rationalisation costs. All very negative on initial reading, and obviously the points the market focused in on at the time of the results. These however are all largely one-off items which should not be experienced again in the current year. The only on-going issue with any of the above is the delay in getting the Thunder Horse platform back fully operational, although this should be resolved by the end of Q1 2006. That was the bad news. Now for the good news: ***Reserve replacement:*** Company confirmed that it it managed to replenish oil and gas reserves by 100% in 2005 on a UK reporting basis, and 95% on a more stringent SEC basis. This compares very favourably with a reserve replacement figure of just 70% for Royal Dutch Shell in 2005, while BP have forecast reserve replacement of up to 1335% out to 2010, compared to a 75% figure for Shell. Capital Position: BP effected buybacks and dividends of $19bn in 2005, making a total of $40bn over the last three years. The company is committed to a distribution of up to $50bn between 2006 and 2008 assuming Brent oil price averages $41 a barrel. With an oil price of $60 a barrel, this could rise to around $65bn. Capital Spending: The company is expected to spend $15bn in 2006 rising to $16bn by 2006. This shows a clear committment to continue to grow the business and activively seek to grow the reserve base. Divestments: In line with its policy to maintain a strong reserve base and replace diminishing assets, the comapny has committed to a $3bn a year divestment programme on an ongoing basis. Refining Margins: The negatives cited above, while obviously a negative on the overall bottom line were off-set by an improvement in refining margins and by the higher price of the basis oil and gas commodities. ***Valuation:*** BP trade on a 2006 P/E of 11.9x and on 10.4x 2007 earnings. This represents a 10% discount to the European Integrated Oil sector and a disount of almost 20% to the FTSE 100. The shares have fallen 5.5% since the release of the results on 7/2/06 compared to a fall in the oil price of just under 3%, and compared to a gain for the FTSE 100 of 2%. Given the company's strong reserves, strong margins, strong free cash flow (FCF Yield 8.5%) and a not unreasonable 3.5% dividend yield the shares, the recent share price weakness represents a good buying opportunity.

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Irish Life & Permanent €19.80 Price rallies on UK M&A activity.
Results announced: Irish Life and Permanent announced its results for the year ended 31/12/05 two weeks ago. Operating profit before tax and earnings per share of €420m and 135c respectively were ahead of consensus forecasts of €407m and 128.7c, and were both year on year increases of 9%. The main area of positive surprise was a particularly strong December for retail pension and bond sales, which given the higher margin nature of these products and the fact that most of the bond sales took place through the group's bank branch network, helped achieve a higher than expected group life margin. ***Bancassurance distribution:*** This overall group life margin increased to 20.4% from 14.9% for 2004, and the 26% growth in bancassurance sales (the group's highest margin distribution channel) was a key factor in helping to achieve this margin expansion. The group's leading share (c.27%) of the Irish life and pensions market leaves it well positioned to profit from the continued growth and ageing of the Irish working population. ***Mortgages stronger:*** Recent data for Irish mortgage lending points to that market remaining stronger for longer, which should help achieve an acceleration in group earnings growth in 2006. We are currently forecasting 10% eps growth in 2006 to €1.49. Slightly higher interest rates and current account market share gains should also help to offset some of the margin pressure at the banking business. ***Allianz value:*** Valuing the group's bank business at 12x upgraded 2006 earnings to reflect its continued strong growth gives a per share value of **€6.53**, valuing the group's life business at 1.8x embedded value per share of €6.26 to reflect its above average future growth prospects gives a per share value of **€11.27**, and valuing the group's 30% interest in Allianz Ireland at 10x 2006 earnings (a discount to FBD's current 12x), gives a per share value of **€1.67**. ***Further upside:*** Summing these 3 different parts gives a per share value for the group on a stand-alone basis of €19.50. Approximately 70% of this dividend (42.8c per share, representing a yield of 2.4%) will be paid to shareholders holding the shares on 26th April. **HOLD**

BMW AG €45.40 FY2006 Earnings expectations increased by management.
Despite doing well in absolute terms over the past year and since the beginning of 2006 BMW has been an underperformer versus the European Auto sector and the German market. FX headwinds from their US exposure and significant increases in raw material costs have kept BMW earnings flat over the past three years. A substantial product revamp in the form of the new 3-series (44% of total group sales) and 5-series also kept Capex at historically high levels. But things are changing and are likely to keep moving in BMW's favour. Last week the group confirmed it expects car sales to hit a record level in 2006 driven but a significant ramp up in 3-series sales and strong sales of the new 5-series. Full year 2006 PBT is expected to be EUR4bln, well ahead of consensus of EUR3.7bln. From a product perspective BMW is hitting the "sweet point" in its product cycle and it is likely to continue well into 2007. BMW has an exceptionally strong balance sheet sitting on circa €4.9bln net Industrial cashflow position an additional 3% share buy back looks likely over the next 6-9 months. At less than 10x next years earnings the BMW valuation case remains compelling. Further broker upgrades are likely and monthly unit sales indicators (Jan +15%, Feb +14%) should continue to point to aggressive sales numbers.

ADIDAS €165.50 Recovering well, Buy ahead of Worldcup 2006.
After a poor week last week, Adidas has recovered well today following a number of upgrades by European Brokers. Our buy rating on Adidas is maintained and is focused on strong revenue growth, significant earnings enhancement from the Reebok deal and a positive earnings kicker from World Cup 2006 this summer. Management expects to gain EUR125m via integration synergies and we are expecting further update at the Adidas Capital Markets day in London on April 11th.

William Hill 578p Cheltenham proves a good results for the Bookies.
Stock has recovered well from 555p two weeks ago. Results at the Cheltenham festival were favourably for the bookies in general. The fundamental story of William Hill remains on track which focuses on an undemanding valuation, good dividend yield, Stanley Leisure integration going well and a share buyback programme of circa £300m this year.

British Land (1255p) Budget catalyst delivers
Last Wednesday, UK finance minister Gordon Brown, presented his annual budget, which included the final version of the UK REIT legislation. As we had hoped on Monday, this version showed some flexibility on the previous version, which will make it less costly for British Land to convert to a REIT. The previous legislation included a 2.5x interest cover (rental income to interest charge) minimum, but this has now been reduced to 1.25x, in line with the US REIT market. The previous draft of the legislation also stated that property companies would have to pay a conversion charge of 5% of the market value of their properties to convert to a REIT structure, but this has now been reduced to 2%, which can be spread over 4 years in 4 different instalments. Tax benefits : According to the latest legislation, REIT's will also be required to distribute 90% of their net profits after capital allowances, corporation tax free, lower than the previously stated 95%, and also in line with US REIT legislation. However, this should still significantly boost dividend yields paid. The sector will also no longer be liable for CGT on property sales, with the distribution of these gains only liable to UK withholding tax at 22%. Further upside: Over the next 12 months, the group's NAV per share should grow by at least a further 10% to £15.29. Over the past 25 years, the historical average discount to NAV for both British Land and the UK property sector has been c.10%, and the current UK property sector discount to NAV is 10%. As a result, last Monday we upgraded our 12 month price target for British Land from £12 to £13.75, which is based on a 10% discount to a forecast NAV per share of £15.29 as at 31/12/06. When combined with the increased dividend yield of c.4% under the new REIT regime, this provides sufficient further upside to justify maintaining our current BUY recommendation.

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Sterling Energy 25p - April results' catalyst ahead
Production increase: With the NYMEX oil price pushing back above $63, within the energy sector, Sterling Energy would appear very well positioned to profit from such sustained high oil and gas prices. In this regard, the 2005 results' announcement, due in approximately one month's time, late April / early May, could be an important catalyst for another re-rating of the share price as it should contain details of the massive amount of new oil production currently coming on stream from the company's Chinguetti oil field offshore Mauritania. **Drilling results:** The first of this new production started to come on stream at the end of February, with production at Chinguetti expected to peak at 75,000 boe per day in Q2 2006. Next month's results' announcement could also contain some exploration results from new drilling at the company's PSC A and PSC B blocks offshore Mauritania, following the arrival there of the Atwood Hunter drilling rig in recent weeks. **Attractive 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 (20% 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, $63 a barrel oil would increase this royalty to c.$7.25 per barrel. With Sterling likely to generate EBITDA of £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.

E.ON (€92.30) Compelling valuation and Dividend Yield of 7.73%
German utility group E.ON today confirmed preliminary results for 2005 with EPS of €11.24 up from €6.61 a year earlier, boosted by a €3bn book gain from the divestment of the real estate unit Viterra and Ruhrgas Industries. Net Profit came in at €7.4bn from €4.3bn a year earlier. At the same time the company said that 2006 net profit would be lower than 2005, but the company's power and gas businesses would continue to drive operating-earnings growth. Recurring EPS(stripping out exceptionals) for 2006 is forecast to come in at €6.63 per share compared to €5.77 for 2005, an increase of 14.9%, while for 2007 recurring EPS is forecast to be 7.99. This leaves the company trading on 13.8x and 11.4x 2006 and 2007 earnings respectively, a discount of 17% to the European utility sector. **M&A Involvement:** E.ON has a cash pile of €12bn and has recently secured a €32bn credit line. Earlier speculation that it was to buy UK utility Scottish Power came to nothing, and recently E.ON has launched a record breaking €32bn bid for Spanish peer group Endesa. Political opposition to the bid from the Spanish government has thrown the bid into question, however today E.ON restated its intention to persue the bid. This statement raised concerns in the market that it may lift its offer, and consequently over-pay for the Spanish company. The company however clarified this statement by saying it would not raise its bid, stressing that political interference in the bid was unnecessary. Since the bid was announced and subsequently fears increased E.ON might pay a higher price, E.ON's shares have fallen from €98.77(on 21/2/06) to their current level of €90.45. Price targets however of up to €117 have been placed on the shares, as the market believes that the management will not jeopardise future earnings growth by over-paying for assets. **Attractive Yield:** E.ON recently announced the intention to pay €4.25 by way of a special dividend, after it disposed of its shareholding in industrial gases group Degussa. Along with this special payout, the company also declared a full year ordinary dividend of €2.75. The combined value of these dividends is €7, with an ex-dividend date and pay date of 5th May 2006. This gives an attractive Gross Yield of 7.73%. This yield, along with the strong balance sheet, strong funding position and the strong growth potential for the company make the shares an attractive buy given the recent price weakness. For long-term portfolio clients, the yield alone is compelling.

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