# Weekly Traders Update

DOLMEN STOCKBROKERS

**28 Nov 2005**

## Brief Market View

The focus of the week in Europe will be on the European Central Bank on Thursday. The ECB are expected to increase European Interest Rates for the first time since Oct 2000, with rates expected to go from 2.00% to 2.25%. It will be a busy week for economic data in the US and UK, with a number of key economic releases expected. In the UK, the Nationwide House Price Survey (Tuesday 7am) and the Manufacturing PMI (Thurs 9.30am) are expected to provide a good indication as to how UK rates may go over the next few months. While in the US, the focus will be on Fridays NonFarm Payroll data (unemployment) at 1.30pm. Durable Goods on Tuesday and the Fed's Beige Book on Wednesday will be closely monitored from a US interest rate perspective. US rate expectations have fallen slighlty (20basis points) over the past few weeks with the market predicting Mr Bernanke will not make any fundamental changes to US monetary policy and US rates are close to a peak near term.
Corporate announcements are relatively quiet this week however in the UK, Barclays issue a trading statement on Tuesday morning and we are expecting a positive update from the group. HSBC and United Utilities report on Thursday. In Ireland our picks this week for new money are **Greencore, Fyffes, Grafton Group and Independent News & Media**, Europe continues to out-perform and as highlighted on a number of occasions investors should consider **BNP Paribas, Adidas, BMW, Inditex and Deutsche Bank for any new money**. In the UK, **Glaxosmitkline** remains our preferred Pharma pick as flagged last week following its 5% drop on the negative Advair (Asthma Drug) news. Other names we like at current levels are **Legal & General, William Hill, Retailers Next and GUS, Pearson, Tesco and Vodafone**

## Fyffes - BUY €2.13

Tariff increase : According to EU Agriculture spokesman, Michael Mann, EU Ministers are due to give their **final approval next week** to an increase in the tariff from 7.5c per kg currently to **17.6c**. Such a figure would represent a further compromise on the most recent 18.7c figure mentioned, which had been reduced from a previous 23c. Quota removal : However, even though such a figure would be a more benign tariff than originally feared, a more important feature of the announcement will be whether the current system of quota and tariff is replaced by a **tariff only system**. If the current quota and tariff system is removed, as looks most likely, then there will be fears about increased banana supply into the European market and lower prices. This could result in some further near term share price weakness for Fyffes. BUYING opportunity : However, such further weakness and indeed today's weakness of ? 2.08 should be used as a BUYING opportunity because the company has a strong record of adapting to regulatory change having operated in the regulated UK market prior to establishment of the EU banana regulated market in 1993.Pineapple diversification : Also, as a result of Fyffes' investment in its Guatemalan pineapple joint venture, its operating profit dependency on bananas has already reduced to c.60%. As this high margin business is further developed, this banana dependency should further reduce. Property diversification : Over the past 3 years, Fyffes has generated "once off" gains of ?30m by maximising the development potential of its existing surplus property sites. Its 28 acre site in Navan, as well as its existing surplus sites in Belfast and Edinburgh all have strong development potential for both commercial and retail use. As a result, further strong gains from such activity are likely to be achieved over the next 2 years. This afternoon Fyffes issued a statement except that "the latest plan has been rejected by the majority of stakeholders in the global banana trade", and the EU will require some waivers from WTO rules to legally apply the new system. Fyffes also confirmed that the EU decision will increase costs by circa EUR40m per annum.
Two important positive catalysts for share price recovery over the next 6 months will be a trading statement in the second week of December and a property portfolio revaluation likely to be included in the 2005 annual report.

## Independent News & Media €2.34

**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.


**Contact Details**

Stephen Tynan
+353 1 6333 873

Colm O'Reilly
+353 1 6333 870

Suzanne Berkery
+353 1 6333 881

Sheena Coen
+353 1 6333 847

Richard Power
+353 1 6333 891

Paul Kelly
+353 1 6333 867

Mark Kelly
+353 1 6333 883

**Main Dealing Line**
**+353 1 6333 640**

**Ph: 6333 640**
Dolmen Stockbrokers Limited
Dolmen House
4 Earlsfort Terrace
Dublin 2

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## Bank of Ireland €13.15

Bank of Ireland announced results for the 6 months ended 30/09/05 last Thursday. Underlying earnings per share of 57.3c was an increase of 10% YoY. BOI also set an interim dividend of 18.2c, up 10% yoy. From a positive perspective At the Irish retail division, mortgage loan growth and business banking loan growth of 26% and 24% respectively were achieved. Life and pension sales grew by an impressive 20% over the period, and credit quality remained very robust. The bank's cost reduction programme remains on course to achieve savings of □30m in the current year. With the bank targeting a total reduction in group staff numbers of 2,100 by 2009, this annual cost saving should grow to EUR120m by then. The performance of Bank of Ireland Asset Management was disappointing with profits falling to EUR59m from EUR70m last year. Our view is that BOI's greater than average exposure to the recovery in life and pension sales currently taking place, when combined with its current cost saving programme and a year on year recovery in fund management fees, should help drive an acceleration in group earnings growth to c.10% for the 12 months ending 31/03/07. Our 12month target on Bank of Ireland is EUR14. Near term we may experience some short term weakness in Bank of Ireland, a good entry level would be €12.50 / €12.75.

## WILLIAM HILL 520p

**Trading Update:** Last Thursday William Hill lowered its full year profit expectations, blaming bad sporting results, in line with comments from Ladbrokes' owner Hilton Group and Paddy Power. William Hill lowered its full year expectations for profit before tax to between £230m and £240m million. Previously it had guided between £240m and £260m. William Hill said ultimately the results for the year ending December 27 will depend on sporting results in the next six weeks. It added the integration of the Stanley Leisure retail estate it bought this year for £504m is going well.

**Positive catalysts?** However, it is not all doom and gloom for William Hill, with 2006 offering a number of opportunities for a recovery in the bookmaker's share price. The integration of the Stanley Retail Betting division is on track to be completed by March 2006. Synergies from the deal are expected to amount to £13m, but there is potential for this number to be revised upwards upon completion of the integration process. Shares should also be supported by the ongoing share buyback program, which is expected to return c£250m to shareholders over the next 12-18 months. In addition to this, there is the football World Cup in June, which should boost betting stocks across the board.

The company is scheduled provide investors with a further trading update on January 10.

**Valuation:** Shares in William Hill have fallen from 557p to 507p over the last ten days and now look relatively cheap, providing a good buying opportunity. At 12.7x 06 earnings, William Hill trades at a slight discount to the sector. This discount would appear to be unjustified given earnings growth of 18% forecast for 05-06. Shareholders also receive a respectable dividend of c3.5%. Paddy Power and Hilton Group are both trading at 15x 06 earnings.

## PEARSON 647p

**Q3 trading update**: At the beginning of November Pearson PLC issued a strong trading update. The UK publisher reported that sales rose 10% in the first nine months of the year, while operating profit rose 20%, driven by 13% sales growth at its education unit (this division accounts for more than half of the company's business). Sales in the schools division, which is heavily concentrated in the U.S., rose 17% thanks to a strong state textbook adoption cycle and publishing market and the start-up of new testing programs, the company said. Sales at book-publishing unit Penguin rose 2%, below the 5% increase in the first half. The company blamed the downturn in consumer spending in the UK. Sales increased 5% at the FT Group business-publishing division, with advertising revenue up 6% at the Financial Times newspaper, dispelling fears of a slowdown in advertising. Pearson reiterated that the newspaper will break even for the full year ending December after two years of losses.

**Resignation at FT**: Andrew Gowers, the editor of the Financial Times, left abruptly at the beginning of the month after a dispute with Pearson over strategy. Mr Gowers, who had been in charge for four years and had worked at the FT for 22 years, was replaced by Lionel Barber, the managing editor of the FT's US edition. Pearson said Mr Gowers had departed over "strategic differences" but neither side would give further details. The company has not expanded on what the strategic differences were, but some reports in the media have stated the differences did not relate to either job cuts or a potential sale of the newspaper.

**Downside is limited:** Pearson will provide the market with a Q4 trading update on January 16 .The last three months of the year is a crucial period for the company's Penguin and College divisions. Commenting in the wake of the Q3 trading update management were cautious ahead of the fourth quarter, but if Pearson can build on the November's update there may be scope for some upgrades to earnings forecasts. In addition it was recently noted that California's State Board of Education has adopted Pearson's innovative Social Science programme on 9th November. Pearson would stand to reap significant rewards if this programme proves to be successful. At 16x06 earnings Pearson trades at a slight premium to the sector but the quality of its earnings (mid-double digit for the next two years) would suggest it is justified. A dividend yield of c4.2% also provides some support to the shares.

**Sales by Division**: Pearson Education (63%), Penguin Group (21%), FT Group (16%)

**Sales by Region**: N.America (67%), UK (20%), Asia (6%), Europe (5%), RoW (2%)


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