Weekly Traders Update

DOLMEN STOCKBROKERS

04 September 2006

Brief Market View

Equity markets enjoyed a strong week last week as the latest batch of US economic data contained no nasty surprises and oil remained stuck around $70. This weeks newsflow is relatively thin on the ground so this should help markets consolidate their recent gains which have seen them trade up to three month highs. Wednesday is the main day to keep an eye on as Fed Chairman Bernanke speaks and the US Beige Book is released.

It's a relatively quiet week ahead for data. The ECB looks set for an October and perhaps a December rate hike, so it's still all eyes on the Fed. Monday is the Labour Day holiday in the States but watch for the Beige Book on Wednesday and unit labour cost figures and services ISM on Tuesday. The bond market has had a big rally of course and looks due for a pause-for-breath. But if the Beige Book highlights downside Q3 growth risks, yields may hold to the recent lows.
The Bank of England is expected to keep rates unchanged next Thursday but there's a growing opinion that the resilience shown by the household sector and housing market plus the rise in inflation expectations will persuade the Bank of England to hike rates in Q4.
It is however a busy week ahead for corporate newsflow, particularly in Ireland. On Tuesday we get a pre-close statement from Anglo Irish Bank and interim results from Kerry, Kingspan and IL&P. On Wednesday Paddy Power, FBD, Glanbia and Tullow Oil will report interim results. On Thursday Fyffes and ICG will report their interim results.

Below are our trading ideas for this week.

Trading ideas	
GSK **Buy @ 1,500p** **Current: 1,492p** **Target: 1,650p** **Stop-loss: 1,418p**	Shares in GSK have performed strongly recently in anticipation of important clinical trial news on its two top drugs over the next 4 weeks. Investigators are expected to give an upbeat assessment of asthma drug Advair at a conference in Munich today while results from a study designed to show that Avandia can slow the progression of type 2 diabetes will be presented at a medical meeting in Copenhagen on September 15. Positive data from either of these presentations are likely to results in upgrades to sales forecast. Our current price target in 1,650p and remain buyers of the stock.
BP **Buy @ 620p** **Current: 593p** **Target: 650p** **Stop-loss: 579p**	**BP's** recent news that it is to shut down 50% of its Alaskan production facility has seen the shares retreat to their pre-results level again. While the production shutdown will impact on earnings estimates for 2007, this will be a short-term issue. The fundamentals of the stock remain strong as shown by recent results which were 4% ahead of consensus forecasts, while oil at c.$70 per barrel supports continued strong cash generation for the $50bn buy-back programme over the next three years. We view the current share price under £6 as offering an attractive entry level, and re-iterate our current share price target of £6.50 : BUY.
Aviva **Buy @ 718p** **Current: 743p** **Target: 850p** **Stop-loss:705 p**	**Aviva** recently announced strong results for the 6 months ended 30/06/06. Operating profit of £1.699 bn was c.2% ahead of the consensus forecast of £1.66 bn, and was a year on year increase of 27%. The 10% increase in the H1 dividend to 10.8p also reassured some investors in relation to Aviva's continued commitment to returning capital to shareholders following July's $2.9 bn cash acquisition of US life assurer, AmerUs Group. Our current 12 month price target for Aviva of £8.50 is based on 1.6x 2006 EV per share of £5.30 and investors will also be paid a dividend yield of c.4% for waiting for this upside to be achieved : BUY.
Petroceltic **Buy @ 18p** **Current: 18.8p** **Target: 33p** **Stop-loss: 15p**	**Petroceltic** recently announced that its initial drilling at its Algerian Isarene Permit had discovered hydrocarbon-bearing reservoirs, which will now be flow-tested. The results of this flow-testing will be announced within two weeks, and any commercial rates achieved should enable the permit's proven reserves to be significantly upgraded. When account is taken of the company's Italian assets and healthy net cash position, such a proven reserves upgrade should push the share price significantly higher : Speculative BUY.

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Earnings Calendar

Company	Date	Event
Anglo	5-Sep	Pre-close
IL&P	5-Sep	H1
Kerry	5-Sep	H1
Kingspan	5-Sep	H1
FBD	6-Sep	H1
Glanbia	6-Sep	H1
Tullow Oil	6-Sep	H1
Paddy Power	6-Sep	H1
Fyffes	7-Sep	H1
ICG	7-Sep	H1
Grafton	13-Sep	H1
Horizon	14-Sep	H1
INWS	19-Sep	H1
BOI	20-Sep	Pre-close
IAWS	26-Sep	FY

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Trading calls (contd)

Trading ideas	
Kerry Group **Buy @ €16.80** **Current: €17.50** **Target: €20.00** **Stop-loss: €15.90**	**Kerry Group** will report for the 6 months ended 30/06/06 tomorrow, and we are forecasting 4% year on year eps growth to 56c. The shares are currently rated at 12.8x 2006 eps of €1.37, which does not fairly reflect the company's ability to significantly boost earnings growth from acquisitions which can be internally funded out of free cash flow generation. Given that the £124m Noon acquisition was its only major deal in 2005, there is a high probability of an increased acquisition spend by year end which would provide the potential for earnings upgrades. Kerry's closest peers, Danisco and Givaudan, currently trade at an average of 14.5x 2006 eps. Valuing Kerry at the same multiple, based on a 2006 eps of €1.37, generates our current 12 month price target of €20 (14% upside) : BUY.
BHP **Buy @ 989p** **Current: 1,024p** **Target: 1250p** **Stop-loss: 960p**	**BHP Billiton** recently reported a net profit of $10.45 bn for the year ended 30/06/06, in line with the consensus forecast of $10.49 bn and a year on year increase of 63%, driven by higher base metal and commodity prices, as well as production increases. However, there has been some profit-taking following the results' announcement showing group costs increasing by $1.34 bn year on year. The group's $3 bn share buyback programme also disappointed some investors who were expecting a larger capital distribution to be announced. However, despite cost increases, we are still forecasting further 18% eps growth to £1.04 for the year ending 30/06/07, and our current 12 month price target of £12.50 is based on 12x eps of £1.04. The share price strengthened towards the end of last week as workers at the company's Escondida coper mine in Chile voted to end a 25 day strike, with full production at the mine expected to resume within a week : BUY.
Investment commentary	
Paddy Power **Buy @ €13.60** **Current: €14.28** **Target: €15.00** **Stop-loss: €12.25**	On Wednesday Paddy Power will report results for the six months ended June 30 and should benefit from the factors highlighted by Ladbrokes and William Hill. We believe that, in addition to strong performances during the World Cup and at racing events in Cheltenham, Aintree and Ascot, the highlight of the results will be the strong growth in its online business. The key numbers to look out for in the results are as follows: EPS of 31c, PBT of €19m and EBIT of €21.7m. We expect the breakdown of its gross win margins to be retail 12%, telephone 8.5% and online 8%.
Anglo **Buy @ €12.08** **Current: €13.23** **Target: €13.50** **Stop-loss: €12.30**	Over the 6 months ending 31/03/06, **Anglo Irish Bank** grew its customer loans by €7.1 bn to €41.2 bn. We are expecting the bank's upcoming trading statement on 5th September to indicate that this loan growth slowed to €5.9 bn over the 6 months ending 30/09/06, generating year on year earnings per share growth of 23% to 87c. This will be Anglo's first time to release a pre-close period trading statement, and the increased market communication is particularly welcome this year given that the full year results are not being released until 6th December because of the new IFRS reporting requirements.
Ryanair **Buy @ €7.50** **Current: €7.68** **Target: €8.60** **Stop-loss: €7.00**	**Ryanair** has announced that its entire fleet of Boeing 737 aircraft will be fitted with OnAir's onboard mobile communications solution from mid 2007, which will enable the airline to offer mobile telephone services during flights across its entire fleet from mid 2007. Passengers will pay international roaming charges and Ryanair will receive a percentage of this revenue as a commission. The new revenue stream should help the airline achieve its target for ancillary revenue of 20% of overall group revenue, from 16% currently, and should also help it increase its current ancillary revenue per passenger of € 7.18.
Kingspan **Buy @ €11.75** **Current: €14.18** **Target: €14.25** **Stop-loss: €13.00**	**Kingspan's** results for the 6 months ended 30/06/06 will be announced tomorrow, and we are forecasting eps of 35c, representing 14% year on year growth. However, with earnings forecasts having already been revised upwards, as recently as May, there may be limited potential for any further upgrades following these H1 results as a result of higher input costs within the building materials' sector driven by higher commodity prices. With the shares now trading at 16.4x 2007 eps of 86.4c, the prospect of continued strong earnings growth may now be quite fairly reflected in the current share price : NEUTRAL.
IL&P **Buy @ €18.00** **Current: €20.20** **Target: €19.50** **Stop-loss: €17.80**	**Irish Life & Permanent** will report results for the 6 months ended 30/06/06 tomorrow. We are forecasting operating profit before tax and earnings per share of €230m and 75c respectively, representing year on year growth of 17% and 20%. Our current price target of €19.50 was based on a sum of the parts valuation, and now that this price target has been achieved, our view is that the shares are quite fairly valued on a standalone basis. As a result, we recommend a SWITCH into Aviva (£7.42) as providing more value at current levels within the European insurance sector : NEUTRAL.

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