Weekly Traders Update

DOLMEN STOCKBROKERS

29 August 2006

Brief Market View

The markets will this week finally get the data they have craved to help get a better handle on the economy and whether it has pulled back further than policy-makers wanted. In the next four days, some two dozen economic reports will be released. These include consumer confidence, job growth and manufacturing figures. Investors might even get a better clue about what Federal Reserve Chairman Ben Bernanke thinks of interest rates when minutes from the last Fed meeting are released.

Chicago Federal Reserve President Michael Moskow said this month's pause to the Fed's string of interest rate hikes was "constructive," but more rate increases could still be needed to cut inflation. Moskow stated that the risk of inflation remaining too high is greater than the risk of growth being too low; therefore some additional firming of policy may be necessary to bring inflation back into the comfort zone within a reasonable period of time. The big 4.1% drop in US existing home sales to a 2 1/2 year low of 6.33m in July, came as a further indication that the housing market downturn is gathering pace. US new home sales for July were also a touch weaker. Bond yields had been falling into these data so the impact may be very muted, the initial impact is a bit of profit taking on bonds. These moves would indicate that bond market is now beginning to price in a peak in US rates which seems to be supporting markets.

The week ahead is a very busy one for data, in both the US and in Europe. The ECB meets next Thursday and while a rate change is not expected, the ECB may hint at further tightening in Q4. In the US we expect to see some softening in consumer confidence for August (Tuesday) but for a slightly stronger consumer spending number for July (Thursday) - watch out within this release for the core PCE deflator, the Fed's preferred measure of inflation. The week's most widely watched indicator will be the August nonfarm payrolls report, due on Friday. Wall Street is forecasting that 120,000 jobs were added in August, up from 113,000 in July. Hurricane warnings could also put equity markets under pressure.

Trading ideas	
Anglo **Buy @ €12.08** **Current: €13.00** **Target: €13.50** **Stop-loss: €11.70**	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. We are forecasting Anglo's earnings growth to slow to 20% over the year ending 30/09/07, generating a forward eps of €1.04. However, earnings growth of at least 15% per annum would appear sustainable as a result of the bank's unique niche business model. Such sutainably strong growth warrants a significant premium to the European bank sector average, and our current share price target of €13.50 is based on 13x forward eps of €1.04.
Lloyds TSB **Buy @ 528p** **Current: 526p** **Target: 560p** **Stop-loss: 485p**	Takeover speculation resurfaced in relation to **Lloyds TSB** last week, after Bank of America chief executive, Kenneth Lewis, stated that his bank may be considering a transformational deal. Our view is that there is an above average probability of Lloyds receiving a takeover approach this year, given the high returns on equity and shareholder- friendly culture of the UK banking market, as well as the fact that several of Lloyds' key executives are non-British who may be more open to considering an international approach. We are still forecasting 2% full year eps growth in 2006 to 48p and 6% eps growth in 2007 to 51p. This provides further share price upside for investors to £5.60, based on 11x 2007 eps of 51p : BUY.
Petroceltic **Buy @ 18p** **Current:19.77 p** **Target: 33p** **Stop-loss: 15p**	**Petroceltic** recently announced that drilling at its Algerian Isarene Permit had started, and is expected to last for the three months of August, September and October. Given the relatively low risk geology of this prospect, there is a high probability of the initial two wells significantly increasing the permit's proven reserves and acting as a catalyst for share price upside. Following the company's oversubscribed share placings earlier this year, at 14p and 18p, it is fully funded for this drilling programme, with results of the initial drilling expected to be announced this Friday, 1st September : Speculative BUY.

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Earnings Calendar

Glanbia	30-Aug	H1
C&C	31-Aug	Pre-close
IL&P	5-Sep	H1
Kerry	5-Sep	H1
Kingspan	5-Sep	H1
FBD	6-Sep	H1
ICG	6-Sep	H1
Tullow Oil	6-Sep	H1
Paddy Power	6-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	
BHP **Buy @ 989p** **Current: 1,000p** **Target: 1250p** **Stop-loss: 960p**	**BHP Billiton** has 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 was 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 : BUY.
United Drug **Buy @ €3.35** **Current: €3.60** **Target: €3.65** **Stop-loss: €3.25**	Shares in United Drug have performed well since we upgraded our recommendation from 'Neutral' to 'Buy' on June 23. In the subsequent months shares benefited from a relatively benign outcome of the Irish government's drug pricing review and an acquisition in the UK. Shares enjoyed a good run as the outcome from the drug pricing review removed an overhang that has weighed on shares over the last 12 months But now with this catalyst out of the way shares may struggle to maintain the recent momentum, relying on further acquisitions to drive the share price. With shares currently at €3.60 we would see limited upside from here (our current price target is €3.65) and would recommend investors to take some profits.
Paddy Power **Buy @ €13.60** **Current: €13.85** **Target: €15.00** **Stop-loss: €12.25**	Last week's solid results from Ladbrokes come in the wake of impressive results from William Hill at the beginning of August. Both bookmakers also highlighted that they had 'good' World Cups and there were strong results from the Cheltenham Festival and Grand National. Paddy Power will report interim results on September 6 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. BUY
Sterling Energy **Buy @ 21p** **Current: 20p** **Target: 28p** **Stop-loss: n/a**	**Sterling Energy's** share price fell to 20p last week, after one of its partners for the Chinguetti oil field offshore Mauritania, Hardman Resources, stated that the wells of the original development plan would only recover c.50% of the original proven and probable reserves estimate of 123m barrels. Our view is that even valuing Chinquetti at zero, Sterling's other assets are conservatively worth 24p per share, and that even if only 50% of Chinquetti's reserves are recoverable, a worst case scenario, the oil field is still worth a further 4p per share to Sterling, generating our current 12 month share price target of 28p : BUY.
IL&P **Buy @ €18** **Current: 19.30** **Target: €19.50** **Stop-loss: €17.80**	**Irish Life & Permanent** will announce its results for the 6 months ended 30/06/06 next Tuesday, 5th September. We are forecasting operating profit before tax and earnings per share of €230m and 75c respectively, representing 20% year on year growth. Strong profit growth is expected from both the life business (17%) and from the banking business (30%), with the key issues being the sustainability of the current life sales growth, as well as the credit quality of the banking business. We will review our current price target of €19.50 following next week's results' announcement.
CRH **Buy @ €26.17** **Current: €26.25** **Target: €30.00** **Stop-loss: €24.30**	**CRH** has announced very strong results for the 6 months ended 30/06/06. Profit before tax and earnings per share of €526m and 73.7c respectively were 3% and 2% ahead of consensus forecasts of €510m and 72.5c, and were year on year increases of 37% and 32%. This impressive growth was driven by a strong year on year recovery at the group's European businesses, as well as by the passing on of higher energy prices in the form of higher cement prices. The massively increased acquisition spend of c.€3 bn since 30/06/05 should ensure that double digit earnings growth is achieved in both 2006 and 2007, and our current 12 month price target of €30 is based on 13x consensus 2007 eps of €2.35. Even though current US housing data remains weak, only c.15% of group profits is exposed to this market : BUY.

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