



# DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

**15.01.2007**



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Section

# 1 Market View

We have mentioned previously in this comment that three of the key influences for equity markets will be oil, interest rates and M&A. Two of these took center stage last week with the oil price declining 7.6% to \$52 and the Bank of England announcing an earlier than expected rise in UK rates to 5.25%. While the falling oil price is clearly bullish for equities, the UK rate rise should have been bearish. However, as we have commented on before, the resilience of equity markets should not be under-estimated, a point emphasised by the performance FTSE in the light of this weeks rate hike. While it could be argued that equity markets have failed to advance above their 52wk highs it is worth noting any drift in markets tends to be short-lived supporting our view that equities remain possibly the cheapest asset class for investors.

This week is an important one on the inflation front with CPI readings due for the UK (Tuesday) and the US (Thursday). While the UK reading may be higher than expected, hence last weeks rate increase, the US reading will be eyed anxiously. An in-line reading of 0.2% on the core number will be welcome and should underpin equity markets at their current levels.

## The Week Ahead

### Economic Calendar

Date	Region	Event	Period	Consensus	Prior
16/01/07	UK	CPI (MoM)	DEC	0.40%	0.30%
16/01/07	UK	Core CPI YOY	DEC	1.70%	1.60%
16/01/07	GE	ZEW Survey (Econ. Sentiment)	JAN	-10	-19
17/01/07	GE	CPI - EU Harmonised (MoM)	DEC F	1.00%	1.00%
17/01/07	EC	Euro-Zone CPI (MoM)	DEC	0.40%	0.00%
17/01/07	EC	Euro-Zone CPI - Core (YoY)	DEC	1.60%	1.50%
17/01/07	US	Producer Price Index (MoM)	DEC	0.50%	2.00%
17/01/07	US	PPI Ex Food & Energy (MoM)	DEC	0.10%	1.30%
17/01/07	US	Producer Price Index (YoY)	DEC	0.70%	0.90%
17/01/07	US	PPI Ex Food & Energy (YoY)	DEC	2.10%	1.80%
17/01/07	US	Industrial Production	DEC	0.10%	0.20%
17/01/07	US	Fed's Beige Book			
17/01/07	JN	BOJ Target Rate	Jan-18	0.50%	0.25%
18/01/07	US	Consumer Price Index (MoM)	DEC	0.50%	0.00%
18/01/07	US	CPI Ex Food & Energy (MoM)	DEC	0.20%	0.00%
18/01/07	US	Consumer Price Index (YoY)	DEC	2.50%	2.00%
18/01/07	US	CPI Ex Food & Energy (YoY)	DEC	2.70%	2.60%
18/01/07	US	CPI Core Index SA	DEC	- -	207.7
18/01/07	US	Housing Starts	DEC	1565K	1588K

### Corporate Calendar

Date	Region	Company	Event
15/01/2007	GB	Uniq	Q3 2006 Trading statement
16/01/2007	GB	Tesco	Christmas trading statement
16/01/2007	GB	Northern Foods	Q3 2006 trading update
17/01/2007	GB	Woolworths Group	Trading statement [post-Christmas]
17/01/2007	GB	SABMiller	Q3 2006 Trading statement
17/01/2007	GB	Rio Tinto plc	Q4 2006 production report

## Current Trading ideas

Trading ideas	
<p>BP Last rec @ 542p Current: 547p Target: 660p Stop-loss: 525p</p>	<p>BP's 2006 full year results' announcement on 6th February could act as a catalyst to trigger some share price recovery, particularly given John Browne's recent decision to bring forward his retirement from February 2008 to July 2007. A major presentation with regard to future group strategy is expected to be unveiled at that stage, including perhaps a new capital distribution initiative. Our view remains that what is not yet discounted by the BP share price is the potential for its production growth to resume in 2007. BP has a large number of new start-ups coming on stream over the next 12 months, which should result in overall production growth of c.5% being achieved for 2007, on the 3.92 boepd achieved for 2006. Our current 12 month price target for BP of £6.60 is based on 11x 2007 eps of 60p and BP will also pay a dividend yield of c.3.5% for waiting for this upside to be achieved : <b>BUY</b>.</p>
<p>BHP Billiton Last rec @ 931p Current: 923p Target: 1100p Stop-loss: 830p</p>	<p>On Thursday week, 25th January, <b>BHP Billiton</b> will release a trading statement for the 3 months ended 31/12/06. The statement should confirm that the group remains on target to achieve current year earnings growth of at least 60%. For the 12 months ending 30/06/07, BHP expects to expand its production of iron ore, copper, coking coal, oil and nickel by between 6% and 12%, and so as a result, does not require further commodity price increases to generate continued strong earnings growth. Over the past 6 years, the group has traded in a range of between 10x and 19x current year eps. As a result, our view is that 12x is a fair multiple, particularly given the strong earnings growth explained above, and so our current 12 month price target of £11 (19% upside) is based on 12x current year eps of £0.92 : <b>BUY</b>.</p>
<p>GSK Last rec @ 1345p Current: 1371p Target: 1500p Stop-loss: 1300p</p>	<p>On 8th February, <b>GlaxoSmithKline</b> will announce its results for the 3 months ended 31/12/06. These results should show full year 2006 earnings per share growth of 15% to 95p, which could act as a catalyst to spark some recovery in the Glaxo share price. With US approval for Tykerb (breast cancer) on course for March 2007, and a US filing for Cervarix (cervical cancer) on course for April 2007, the results' release could also help improve sentiment towards the group's pipeline. At 13.7x consensus 2007 eps of £1, the shares are still trading at a 12% discount to the current EU pharma sector average of 15.6x 2007 eps, and the share price will also continue to receive some support from the company's ongoing share buyback programme : <b>BUY</b>.</p>
<p>C&amp;C Last rec @ €11.60 Current: €12.20 Target: €13.00 Stop-loss: €11.00</p>	<p>The widely followed AC Nielsen data for the UK on-trade market showed some resilience by <b>C&amp;C's</b> Magners in its share of the UK long alcoholic drinks (LAD) market outside of London. While Magners' share of the LAD market in London fell to 2.2% and 1.9% respectively for October and November 2006, from 3.0% and 2.9% respectively for August and September 2006, its market shares in both Scotland and outside of London for the same months were much more resilient. Therefore, even though further market share data for the winter months could be weaker than some forecasts, and even though the group's full year results for the year ending 28/02/07 may only be in line with current consensus forecasts, driven in part by some winter discounting, the product's strong medium term secular growth prospects remain in tact. Underlying earnings growth of 20% per annum would appear sustainable, supporting a forward multiple of 20x. This would rate the shares at a c.20% premium to the average of 16.6x forward eps at which Heineken and Diageo are currently trading, which appears justifiable given C&amp;C's stronger earnings growth. Therefore, we would use any near term share price weakness as a BUYING opportunity, and our 12 month price target of €13 is based on 20x forward eps of 65c : <b>BUY under €12</b></p>
<p>United Drug Last rec @ €3.90 Current: €4.00 Target: €4.40 Stop-loss: €3.65</p>	<p>While continued uncertainty with regard to the ultimate agreement that will be reached with the Irish government in relation to the pricing of off-patent drugs could hold the <b>United Drug</b> share price back in the short term, this regulatory risk should be removed by mid 2007, enabling investors to re-focus on the group's continued acquisition led growth prospects. Current consensus forecasts have already factored in a c.3% hit to forward eps from the setting of ex-factory prices with the manufacturers, which was concluded in July 2006. The remaining elements of the Irish drug pricing review, the setting of wholesale margins and the level of mark up allowed to pharmacists on medical card holder drugs, will only impact the group's Irish wholesale division, which contributes c.30% of overall group profits. Once the group's regulatory risk is removed this year, our view is that the share price can return to its historical average rating of c.18x forward eps. Our forecasts are for current year and forward eps of 22c and 24.5c respectively, and so we recently raised our 12 month price target from €4 to €4.40 (10% further upside), which is based on 18x eps of 24.5c for the year ending 30/09/08 : <b>BUY</b>.</p>

### Other live trading ideas

Date of Rec	Company	Price (at time of Rec)	Last Close	Source	Analyst	Target Price
15-Dec	Irish Life & Permanent	€ 20.80	€ 21.20	Daily	SD	€ 23.00
20-Dec	Greencore	€4.45	€ 4.55	Daily	SD	€4.80
21-Dec	Ryanair	€10.25	€ 11.25	Daily	SD	€11.50
22-Dec	Vodafone	£1.46	£1.50	Daily	SD	£1.55
04-Jan	Fyffes	€1.06	€ 1.14	Daily	SD	€1.15
08-Jan	GSK	£13.80	£13.71	Weekly	SD	£15.00
08-Jan	BHP Billiton	£8.84	£9.23	Weekly	SD	£11.00
08-Jan	Tullow Oil	£3.70	£3.76	Daily	SD	£4.20
09-Jan	BP	£5.42	£5.47	Daily	SD	£6.60
10-Jan	United Drug	€ 3.90	€ 4.00	Daily	SD	€ 4.40
11-Jan	British Land	£15.80	£15.84	Daily	SD	£17.50
12-Jan	C&C	£11.60	£12.20	Daily	SD	£13.00

### Sunday Papers

Paper	Company	Comment
Sunday Times	CPL Resources	buy
Sunday Times	Smurfit Kappa	Big banks line up for Smurfit float
Sunday Timers	Smiths	Smiths' status
SBP	ISE	ISE to launch new global Investment Products
SBP	BA	Walsh Ready for long haul
SBP		Regulator waters down the rules on high risk lending
SBP	Smurfit Kappa	Smurfit Kappa in €6bn flotation
Sunday Independent	M&S	Big boys sell out at M&S
Sunday Tribune	Airtricity	Airtricity to raise €1bn to fund construction of its North American expansion
Sunday Tribune	AirAsia	AirAsiaX may pre-empt Aer Lingus with a direct Asian service

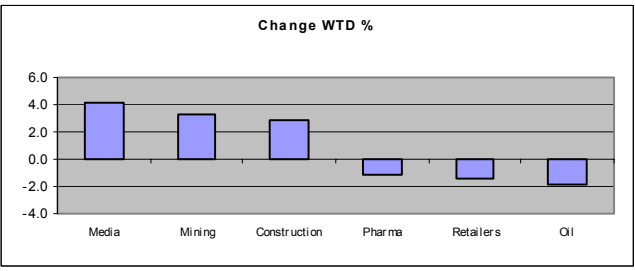
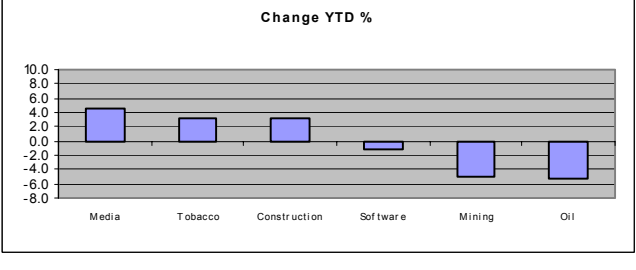
## Chart View

Chart	Trend	Comment	Key Support	Second Support	Key Resist	Second Resist	Current Position	Recent Position
Iseq	Up	Correcting to support @ 9150 before higher.	9150	9385	9595		No position	No position
Ftse100	Up	Resistance at 6310 may curtail this week- would look to buy at 6140	6140		6310	6450	Sell at 6310 with 6375 stop	No position
Dax	Up	Better chart near term than Ftse or Iseq- may head to 6810-6840 level before correcting.	6510	6580	6840		No position	No position
Dow	Up	Think rally may run out of steam at 12700- before move back to 12465- weekly chart suggests correction	12465		12700	13000	No position	No position
Euro/USD	Sideways/Up	Moving averages negative-range has moved up but still range bound- position on extremes and avoid mid range positions.	1.2735	1.283	1.2945	1.325	No position	No position
Euro/GBP	Down	Hit the level we covered last year- been expecting this move- look to consolidate now.	0.652		0.675	0.6716	No position	No position
Bunds	Sideways	Looks like range-bound and reaching near bottom of range- position long with tight stop					Buy at 115.05- stop 114.80	No position
Oil	Down	Have to go to very long term charts to find support- 2001/2002 rallies- sell into strength on- but not here very oversold	50	45	57	60.75	Sell at 60 with 64.60 stop	No position
Vodafone	Up	Trading well – heading to 160	142.5	152	160		Buy @148.50 139 stop	No position
Lloyds	Sideways	At key resistance level failed here twice before- inclined to take profits	578	542	600		Short at 5.98 with 6.20 stop	No position
BHP	Sideways	Think we will continue to be in sideways range- 8.60-9.60 for a while yet	870		942	1050	Sell at 942 with 970 stop	No position
Tullow	Sideways	Trading weaker- inclined to sell on move back to 400	339	390	401		Sell at 3.97 with 4.05 stop	No position
Anglo	Up	Not much value in long trade – look to buy at 15.20-15.30	15.25		16.8		No position	No position
C&C	Up	Move back up into uptrend- inclined to buy this only on weakness and to trade	11.25	11.9	13.35		Buy @11.90 & @ 11.25 stop @10.90	

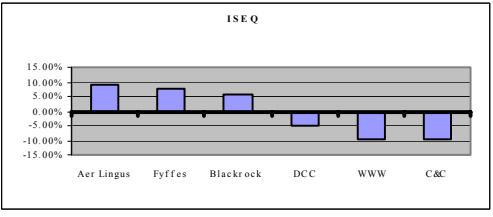
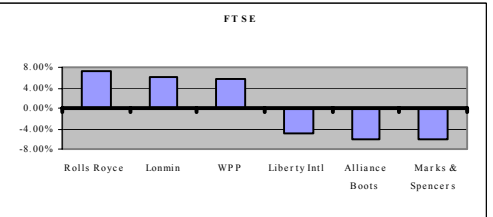
## Last Week's Moves

	Levels	Last week's moves	YTD Move
<b>Equities</b>			
<b>DJ INDUS. AVG</b>	12556.08	1.28%	0.75%
<b>S&amp;P 500</b>	1430.73	1.49%	0.88%
<b>NASDAQ</b>	2502.82	2.82%	3.62%
<b>DJ</b>	3772.01	1.33%	2.02%
<b>FTSE 100</b>	6239	0.30%	0.29%
<b>DAX</b>	6705.17	1.70%	1.64%
<b>ISEQ</b>	9337.52	-1.01%	-0.75%

	Div Yield-2006	EPS Growth 2006	P/E-2006	P/E-2007
ISEQ	2.55%	14.1%	12.0	10.5
UK	3.40%	15.5%	13.0	12.4
US	2.10%	10.9%	16.2	15.1
Euro	3.19%	15.0%	12.7	11.9

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Media	4.14	4.56	
Tobacco	2.38	3.30	
Construction	2.82	3.22	
Telecommunications	0.67	2.74	
Chemicals	2.60	2.59	
Insurance	1.72	2.11	
Pharmaceuticals	-1.21	1.77	
General Industrials	2.00	1.71	
Banks	0.09	1.56	
Technology	0.08	1.39	
Leisure Goods	2.59	1.37	
General Retailers	-1.36	1.28	
Automobiles & Parts	-0.73	0.06	
Beverages	0.55	-0.27	
Food Producers	-0.88	-0.76	
Personal Goods	-0.40	-1.05	
Utilities	1.28	-1.14	
Software	-1.09	-1.29	
Mining	3.34	-5.05	
Oil & Gas Producers	-1.83	-5.28	

## Best/Worst Performers 8/1/07 – 15/1/07

ISEQ	FTSE
	

The ISEQ closed down over 1% on the week after a positive start to the week, however, a lack of stock specific news failed to provide any momentum. The main story of the week was the roller coaster ride had by C&C. After falling more than 10% on Thursday alone ahead of AC Neilson data and broker downgrades the stock stabilised on Friday but still ended to week down over 8%.

Oil and gas stocks weakened as crude prices continued to drop. Shares of Wolfson Microelectronics advanced in London on Wednesday after one of its customers, Apple Computer, said it intends to launch a phone product. However, the banking sector and home builders putting a cap on gains as investors worried about the ability of consumers to service debt in the light of the rate tightening to 5.25% on Thursday.

Section

# 3 Commodity, Currency & Credit Markets

	Current			YTD Change		
	EURO	GBP	USD	EUR	GBP	USD
Base Rate	3.50%	5.25%	5.25%	0.00%	0.25%	0.00%
3 Month	3.75%	5.53%	5.18%	0.03%	0.33%	0.06%
12 Month	4.05%	5.84%	5.07%	0.05%	0.21%	0.11%
5 Year	3.98%	5.24%	4.76%	0.07%	0.11%	0.07%
10 Year	4.05%	4.90%	4.78%	0.11%	0.16%	0.07%
EUR-USD X-RATE	1.29455			-1.96%		
EUR-GBP X-RATE	0.6599			-2.11%		
CRUDE OIL FUTR	53.27			-12.76%		
NAT GAS FUTR	6.604			4.74%		
GOLD SPOT \$/OZ	625.5			-1.89%		
SILVER SPOT \$/OZ	12.855			-0.23%		
LME ALUMINUM	2695			-3.85%		
LME COPPER	5750			-9.16%		

## Exchange Rates

	Current	YTD change	Year End Forecasts
EUR-USD X-RATE	1.29455	-1.96%	1.35
EUR-GBP X-RATE	0.6599	-2.11%	0.665

## Forecast 2007

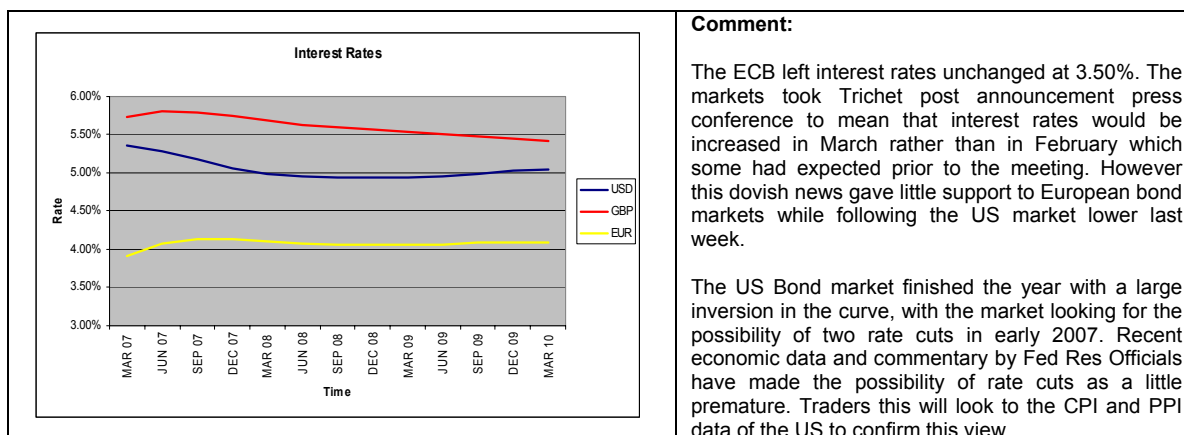
GDP	Current	2007(e)
Ireland	7.70%	6.00%
Euro Zone	2.70%	2.50%
UK	2.90%	3.00%
US	3.00%	2.00%

Central Bank Interest Rates	Current	2007(e)
Ireland	3.50%	3.75%
Euro Zone	3.50%	3.75%
UK	5.00%	5.25%
US	5.25%	4.75%

Inflation	Current	2007(e)
Ireland	4.40%	5.50%
Euro Zone	1.90%	2.10%
UK	2.70%	2.90%
US	2.00%	1.20%

10 Year Bond Yields	Current	2007(e)
Ireland	4.01%	3.65%
Euro Zone	4.01%	3.65%
UK	4.81%	4.50%
US	4.69%	4.35%

## Bund Comment

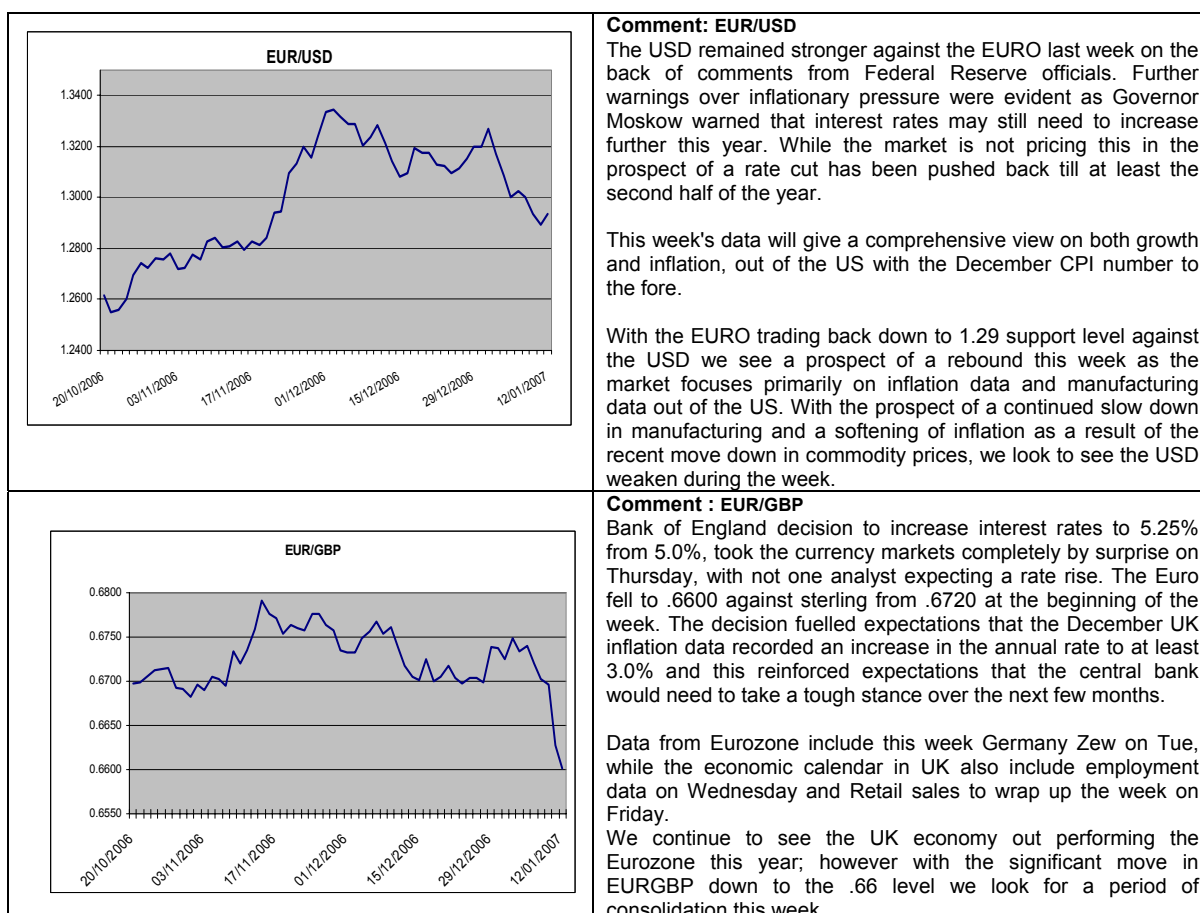


### **Comment:**

The ECB left interest rates unchanged at 3.50%. The markets took Trichet post announcement press conference to mean that interest rates would be increased in March rather than in February which some had expected prior to the meeting. However this dovish news gave little support to European bond markets while following the US market lower last week.

The US Bond market finished the year with a large inversion in the curve, with the market looking for the possibility of two rate cuts in early 2007. Recent economic data and commentary by Fed Res Officials have made the possibility of rate cuts as a little premature. Traders this will look to the CPI and PPI data of the US to confirm this view.

## Currency Comment



### **Comment: EUR/USD**

The USD remained stronger against the EURO last week on the back of comments from Federal Reserve officials. Further warnings over inflationary pressure were evident as Governor Moskow warned that interest rates may still need to increase further this year. While the market is not pricing this in the prospect of a rate cut has been pushed back till at least the second half of the year.

This week's data will give a comprehensive view on both growth and inflation, out of the US with the December CPI number to the fore.

With the EURO trading back down to 1.29 support level against the USD we see a prospect of a rebound this week as the market focuses primarily on inflation data and manufacturing data out of the US. With the prospect of a continued slow down in manufacturing and a softening of inflation as a result of the recent move down in commodity prices, we look to see the USD weaken during the week.

### **Comment : EUR/GBP**

Bank of England decision to increase interest rates to 5.25% from 5.0%, took the currency markets completely by surprise on Thursday, with not one analyst expecting a rate rise. The Euro fell to .6600 against sterling from .6720 at the beginning of the week. The decision fuelled expectations that the December UK inflation data recorded an increase in the annual rate to at least 3.0% and this reinforced expectations that the central bank would need to take a tough stance over the next few months.

Data from Eurozone include this week Germany Zew on Tue, while the economic calendar in UK also include employment data on Wednesday and Retail sales to wrap up the week on Friday.

We continue to see the UK economy out performing the Eurozone this year; however with the significant move in EURGBP down to the .66 level we look for a period of consolidation this week

## Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Current Yield	
AAA	Rabobank	3.65%	4.04%	<p>The Itraxx* was unchanged over the week. The unshakable credit markets were resistant to a surprise BOE rate hike, this is primarily due to the high investor demand at this time of year. Macro data continues to be the likely stimulus for possible spread widening.</p> <p>*ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market</p>
AA	Deutsche Bank	3.95%	4.14%	
A	Tesco	3.83%	4.18%	
BBB	MKS	5.30%	5.72%	
BB	Royal Caribbean Cruise lines	5.73%	6.27%	

### Sector Movements in week ended 12/01/2007:

**Automotive:** Wide for the most part in the sector – BMW, DCX and Renault all widened 1bps this week while VOW tightened 1bps on news that the Scania bid has been rejected following a political power struggle in the VW board. In the US GM announced it is likely to see further assets sales in 2007 as the automaker is still failing to generate cash from operation- spreads widened 6bps on the news. Ford also widened slightly in sympathy with its larger counterpart, +3bps.

**Building materials:** Tighter in the sector – the biggest mover was Heidelberg, -3bps, following reports that profit doubled in 2006. Heidelberg had responded to a slump in the domestic market by expanding into Eastern European markets. Elsewhere both Lafarge and Pilkington tightened 1bps while Saint Gobain widened 1bps on reports the company is possibly interested in acquiring a UK competitor.

**Chemicals:** Mixed in the sector – Bayer was unchanged, Linde tightened 1bps while BASF widened 2bps over the week following reports of a chemical leak at a UK plant.

**Airlines:** Mixed in the sector – British Airways tightened 3bps this week while its counterpart Lufthansa widened 2bps over the same period. BA was placed on positive credit watch by S & P this week following announcement that the airlines four unions will recommend pension deficit reduction proposals - however The Times reported Thursday that unions will reject these proposals. Lufthansa widened 2bps over the week following rumours that they had bid for SAS, the Scandinavian airline. Elsewhere BAA widened 1bps, BAE systems tightened 1bps and Rolls Royce was unchanged.

**Food/Beverages:** Quiet in the sector - Tesco was unchanged while Sainsbury tightened 1bps over the week following reports that sales in 3Q 2006 increased 5%. In France Carrefour widened 1bps after the supermarket chain missed sales estimates, reporting €23.5b sales vs. €24.1b expected.

**Telecoms:** Tighter in the sector – both British Telecom and Deutsche Telecom tightened 6bps and 4bps respectively this week following Moody's publication on European investment grade telecom companies. Moody's noted a stable outlook due to stable credit metrics, recent debt reduction. However, Moody's noted that future telecom cash flow generation is likely to be used for acquisitions and shareholder initiatives. Elsewhere Vodafone widened 1bps over the week following the issuance of new unsecured bonds.

**Retail:** Wider in the sector – GUS and Kingfisher widened 2bps and 2bps respectively. Kingfisher saw further widening (+5bps since Christmas) as private equity rumours continue to swirl. Elsewhere Dixons widened 1bps.

**Media:** Mixed in the sector – EMI moved 12bps following a profit warning announcement on Friday morning, warning of possible 10% fall in full year sales due to weak sales over the Christmas period. Elsewhere BSkyB tightened 4bps over the week, despite the regulator's ruling that BSkyB may be asked to sell part of its stake in ITV.

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