



18<sup>th</sup> July 2005

**Last Weeks Moves**

	Level	Last Weeks Move	YTD Move
<b>Equities</b>			
FTSE	5229	2.10%	8.86%
Dow	10656	3.44%	-1.49%
S&P	1231	2.99%	1.21%
Dax	4741	2.44%	10.97%
DJStoxx	3111	3.18%	12.72%
Iseq	6603	1.06%	6.43%

	Level	Last Weeks Move	YTD Move
<b>Currencies</b>			
Euro/USD	1.2068	-5.72%	0.15%
Euro/GBP	0.6895	1.66%	-2.49%
<b>Bonds</b>			
US10Yr	111.70	-1.56%	-0.01%
EUR10Yr	122.22	-0.99%	3.06%
<b>Brent</b>	58.24	-1.25%	34.04%

**Trading Calls**

Stock	Price	Recommendation
<b>ROLLS ROYCE</b>	<b>303p</b>	Rolls Royce is one of the world's three major world-wide aircraft-engine manufacturers. It will report its half year results to 30/06/05 on 28th July. The shares have performed well of late due to a number of factors:(1) the weakness of sterling v's US dollar (2) the successful maiden flight of the Airbus A380, powered by the RR Trent 900 engine; (3) the addition of a number of new sales and service contracts; and, an outlook upgrade from Negative to Stable by ratings agency Moody's. On the outlook upgrade by Moody's, the agency cited the company's strong financial performance evidenced by strengthening earnings and retained cash flow and stronger financial results due to increased demand in the company's commercial aerospace segment. The shares at 305p trade on 2005 P/E of 15.5 in line with the sector, but on a 2006 P/E of 13. This puts the shares on a PEG Ratio of 0.80 (a PEG less than 1 represents good value). Revenue split by region; US 36%, Asia/Australia 23%, EU 19%, UK 15%, Other 5%. There have been a number of broker upgrades to the stock in recent weeks with price targets increased from 290p to 330p to reflect the above. The shares might be worth a look ahead of the interim results (with a possible 10% upside from current levels. <b>BUY</b>
<b>SMITH &amp; NEPHEW</b>	<b>533p</b>	Smith & Nephew develop and market advanced medical devices, concentrating on orthopaedics, endoscopy and wound management with further businesses in casting and bandaging, rehabilitation and ear, nose and throat devices. A recent trading update saw the company state that group sales by 12-13% in 2005 and operating margins by about 50 basis points to 20.6%. The company, like other companies in its sector is benefitting from the growing demand for replacement joints from ageing populations in the world's wealthiest countries. The stock trades on 22x Dec '05 & 19x Dec '06 earnings which is a discount of 15% to its global competitors. The stock represents an opportunity to play the Pharma sector without taking any stock specific risk regarding patent issues or generic manufacturing risks. Revenue split by region; US 52%, Europe 33%, Asia/Africa 15%. We would expect Smith & Nephew to trade towards 600p over the next 3-6 months. <b>Interim results are due from the company on 04 August. BUY</b>

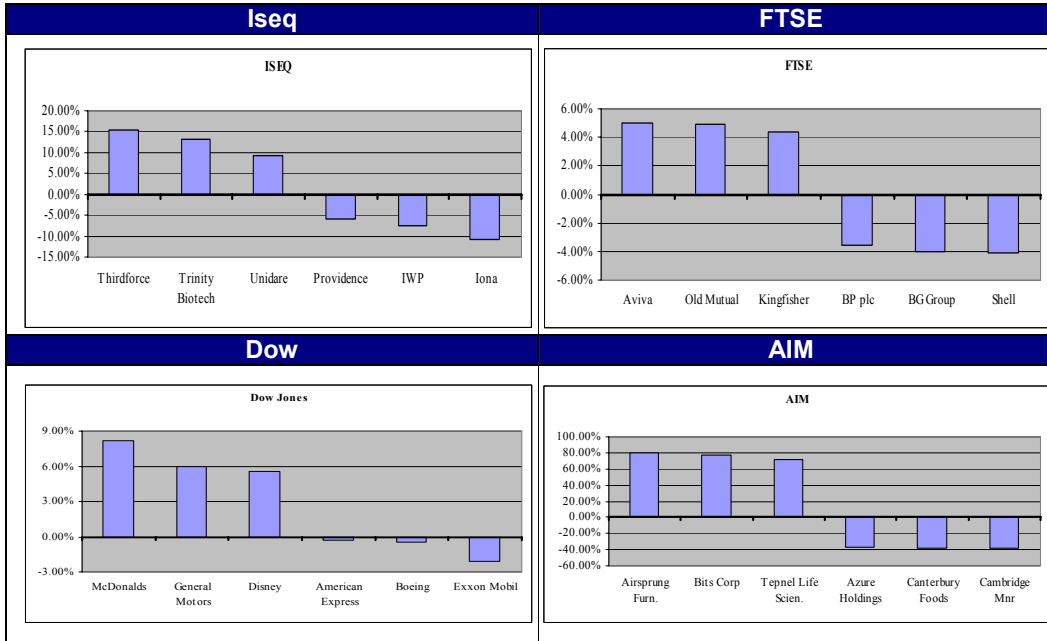
## Headlines

Paper	Company	Comment
Sunday Independent	<b>Jurys</b>	To match the Precinct bid, Jurys Doyle may be forced to sell some of its hotels
Sunday Independent	<b>Eircom</b>	Eircom may need to raise €250m through a rights issue to pay for Meteor
Sunday Times	<b>Kingspan</b>	Kingspan: It is the depth of Kingspan's product offering that has been the cornerstone of its success; earnings rose 30% last year and will rise by over 30% this year. Buy under €10. Has increased 50% this year and trading around 19x 2005, it looks like it is getting to the top of its range, target of € 11.
Sunday Times	<b>Ivernia</b>	Ivernia shares reward the patient. Shares have increased from 10c since they sold out the their 50% stake in the Lisheen Mine in 2003, to trade last week at 1.10€, might be time for Irish punters to cash in their chips
SBP	<b>Smart Telecom</b>	Virgin backs Smart in Meteor takeover bid

## Key Events This Week

Item	Day/Time	Implications
<b>US equities</b>	<p><b>Monday</b> 3M, Citigroup, IBM</p> <p><b>Tuesday</b> J&amp;J, Yahoo!, Ford, Intel</p> <p><b>Wednesday</b> GM</p> <p><b>Thursday</b> SBC, Caterpillar, Merck, Microsoft</p>	<p>The US earnings season kicks off in earnest this week with several key companies reporting, GM and Intel most notably. Markets will be looking for this week's earnings reports to match those of Apple and Genentech last week.</p> <p>The bulk of earning reports will be released over the next two weeks. Sixteen of the 30 Dow industrials are reporting this week, including Microsoft Corp., Citigroup, Altria Group Inc. and Pfizer Inc.</p> <p>When GM reports earnings on Wednesday, the company is expected to turn a profit of 10 cents per share, compared to 16 cents per share in the second quarter of 2004.</p> <p>After being hurt by poor sales and financial troubles, the automaker has been successful in driving business by extending its employee discount program to all car buyers.</p> <p>Intel's earnings will likely set the tone for a resurgent technology sector that has pushed the Nasdaq to its highest levels of the year. Intel is expected to earn 32 cents per share, compared to 27 cents a year ago, when it reports earnings Tuesday after the session.</p>
<b>Nokia</b>	<b>Thursday</b>	Nokia is this week expected to report a 25% rise in second quarter revenue and earnings per share at or slightly above €0.18, but investors will focus on the company's outlook for the following quarter and the full year. In April, the world's biggest mobile handset maker projected it would post EPS of €0.15 to €0.18 and revenue of €7.9 to €8.2 billion in the second quarter.
<b>US economics</b>	<p><b>Monday</b> -Net flows (\$47.4bn exp.)</p> <p><b>Tuesday</b> -Building &amp; house starts</p> <p><b>Thursday</b> -Greenspan speech -FOMC minutes -Lead indicators (0.3% exp.) -Philly Fed</p>	Federal Reserve Chairman Alan Greenspan gives his semi-annual testimony on the U.S. economy to Congress. Greenspan is likely to give some hints on the direction of interest rates. Other economic data on scheduled for Thursday that might influence trading will include a report on June leading U.S. economic indicators and a regional manufacturing report from the Philadelphia Federal Reserve Bank. The minutes from the last meeting of the Federal Open Market Committee, the central bank's rate-setting body, also will be released on Thursday. Data on June U.S. housing starts and building permits are set for release on Tuesday.
<b>Euro economics</b>	<p><b>Tuesday</b> -ZEW surey (22.0 exp.)</p> <p><b>Wednesday</b> -MPC minutes</p>	Minutes from the Bank of England's July interest rate meeting and Germany's ZEW business confidence survey for July will be the major attractions in Europe. The BoE releases minutes from last week's monetary policy meeting on Wednesday and analysts said some investors could be exposed if the tone is less dovish than anticipated. Euro zone data due could show improvement in Europe's economic outlook. Investors will pay particular attention to the German ZEW business confidence survey due on Tuesday. Analysts forecast the index to rise to 22.0 from 19.5 in June.

**Best/Worst Performers 11/07/05 – 15/07/05**



**Sectors**

Sector	Last week %	YTD %
Auto	0.08%	-0.02%
Banks	0.55%	1.28%
Consumer Goods	0.01%	0.13%
Chemicals	0.07%	0.20%
Construction	0.03%	0.25%
Drinks	-0.02%	0.48%
Enterprise Software	0.13%	0.40%
Food	-0.02%	0.50%
Exploration	-0.02%	0.78%
Insurance	0.13%	0.37%
Leisure	-0.01%	0.07%
Manufacturing	0.03%	0.02%
Media	0.03%	0.30%
Oil	-0.33%	2.85%
Pharmaceutical	-0.03%	0.94%
Retail	0.06%	0.15%
Tobacco	-0.06%	0.29%
Telecoms	0.23%	-0.01%
Technology	0.05%	0.26%
Utilities	-0.06%	0.95%

**Weekly**

Sector	Weekly %
Banks	0.55%
Tech	0.07%
Ent Soft	0.13%
Pharma	-0.03%
Tobo	-0.06%
Oil	-0.33%

**YTD**

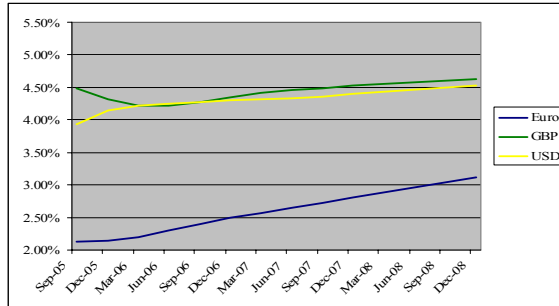
Sector	YTD %
Oil	2.85%
Banks	1.28%
Pharm	0.94%
Manu	0.02%
Tele	-0.01%
Auto	-0.02%

**Equities**

	ISEQ	UK	US	Eur	Comment
Div Yield-FY1	2.50%	3.50%	2.11%	AIB	<b>Comment:</b> AIB 06 EPS Growth down 0.8%
EPS Growth-FY1	15.99%	10.60%	10.80%	14.68%	
EPS Growth-FY2	11.40%	7.60%	9.30%	7.08%	
P/E-FY1	12.1	14.7	16.4	13.1	
P/E FY2	10.9	13.6	15.0	12.2	

## Interest Rates

	Closing levels			Change From Previous Week		
	Euro	GBP	USD	Euro	GBP	USD
Sep-05	2.13%	4.48%	3.94%	0.01%	0.00%	0.00%
Dec-05	2.14%	4.31%	4.15%	0.02%	0.00%	0.01%
Mar-06	2.20%	4.22%	4.21%	0.02%	-0.02%	0.02%
Jun-06	2.30%	4.22%	4.25%	0.02%	-0.02%	0.02%
Sep-06	2.39%	4.27%	4.28%	0.01%	-0.02%	0.02%
Dec-06	2.49%	4.34%	4.31%	0.00%	-0.02%	0.02%
Mar-07	2.56%	4.41%	4.31%	0.00%	-0.01%	0.00%
Jun-07	2.65%	4.46%	4.33%	0.01%	0.00%	0.00%
Sep-07	2.72%	4.49%	4.36%	0.01%	0.00%	0.00%
Dec-07	2.81%	4.52%	4.40%	0.01%	0.00%	0.00%
Dec-08	3.12%	4.62%	4.53%	0.02%	0.00%	0.00%
5 yr Yield	2.67%	4.35%	3.95%	0.11%	0.25%	0.08%
10 yr Yield	3.29%	4.35%	4.18%	0.11%	0.13%	0.12%



### Comment:

The minutes of July's meeting of the Bank of England's Monetary Policy Committee, which will be published on Wednesday, look set to dominate the economic agenda this week. Analysts will examine them for hints that interest rates might fall next month. A raft of data on the housing and retail market is due this week and will be studied to see if it adds weight to the case for reducing rates.

## Bonds

Bonds	Maturity	Coupon	Currency	Rating	G.R.Y	Risk	
Anglo Irish	1 Yr Float	17/02/06	3 M € + 20bp	€	A2/A	2.33%	<1 yr
BOI	1 Yr Float	23/01/06	3 M € + 12.5bp	€	Aa3/ A+	2.26%	< 1 Yr
HSBC Finance Corp	3 Yr Fix	09/07/08	3.375%	€	A1/A	2.56%	2.87
HBOS Treasury	3 Yr Fix	23/01/08	3.75%	€	Aa2/AA	2.44%	2.47
Lloyds Bank (sub)	5 Yr Fix	25/08/10	6.25%	€	Aa1/ AA-	2.85%	5.15
BOI (sub)	5 yr Fix	10/02/10	6.45%	€	A1/A	2.84%	4.64
Deutsche Telekom	10 Yr Fix	19/01/15	4.0%	€	Baa1/BBB+	3.66%	8.04

5 Yr European CDS spreads were 2.00bps tighter over the week and 1.75bps tighter over the month to close at 37.75bps as measured by the DJ ITraxx.

### Ratings action:

**Royal & Sun Alliance Insurance Plc (RSA LN)** (Baa1/A-/BBB - stable) Fitch upgraded RSA's long term debt rating from BB+ to BBB, a two notch upgrade, with a stable outlook.

The upgrade reflects the progress made by the company, which has exceeded Fitch's expectations, in (1) reducing business risk; (2) enhancing the capital base; and (3) improving performance.

However, Fitch remain cautious of the continuing wind-down of the US operations which include litigation and reserving risks, where Fitch do not believe the current capital reserves are supportive of the debt rating.

FYE 12/2004 – Net sales £5.2b; EBITDA £142m; P/E ratio 8.61

### Other:

S & P issued a short comment on **Marks and Spencer (MKS LN)** (Baa2/BBB - Negative) on Wednesday stating that it's rating on MKS was unaffected by the announcement of a 9.2% sales decline in the clothing and apparel division in Q1 2006.

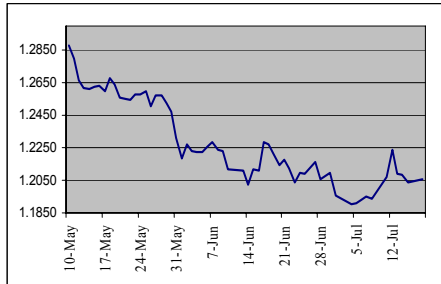
S & P expects the Group is still on track to achieve improvements to operating earnings and free cash flow, driven by sales growth in the food retail division; reduced operating costs; and lower inventory levels.

MKS needs to achieve FFO/net debt of 25% at year-end to maintain their rating.

### Currencies Vs Euro

Currency	Current Rate	Last Week	Comment
USD	1.2068	1.205	The dollar could move in the wake of the release of U.S. May net capital inflows data as markets remain wary about the near-record U.S. current account deficit and the ability of the U.S. economy to attract cash to offset it. Data released last week showed the U.S. trade deficit shrank unexpectedly by 2.7 percent to \$55.35 billion in May, defying analysts' expectations of a \$57 billion gap and boosting the dollar.

### Euro/USD



### Dolmen: Last 10 pieces of research:

Stock	Date	Price	Recommendation
IFG	18/07/05	€1.07	<b>Buy:</b> Mortgage growth continuing
Circle Oil	15/07/05	39p	<b>Sp.Buy:</b> Upcoming developments
Mclnerney	14/07/05	€8.49	<b>Neutral:</b> Slowing growth, margin erosion
Tullow Oil	13/07/05	191p	<b>Buy:</b> Trading statement released
Kingspan	12/07/05	€10.65	<b>Neutral:</b> Trading statement released
Greencore	11/07/05	€3.60	<b>Neutral:</b> Price target achieved
Ryanair	08/07/05	€6.30	<b>Buy:</b> New routes from Shannon
British Land	07/07/05	893p	<b>Buy:</b> Surprise Olympic win
Grafton	06/07/05	€9.05	<b>Buy:</b> Statement highlights differences
CRH	05/07/05	€22.19	<b>Buy:</b> Trading statement released

DOLMEN SECURITIES → Website : [www.dolmensecurities.com](http://www.dolmensecurities.com)

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