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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9409	↓ -128	-1.34%	11.0	0.01%
FTSE 100	6172	↓ -115	-1.82%	12.4	-0.79%
DAX 30	6715	↓ -104	-1.53%	15.0	1.80%
DOW	12269	↑ 52	0.43%	19.5	-1.56%
NASDAQ	2416	↑ 8	0.34%	15.6	0.04%
S&P	1407	↑ 8	0.56%	21.0	-0.81%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3215	0.6746	#N/A
Dollar	1.3215	1.0000	#N/A	118.6100
Sterling	0.6746	#N/A	1.0000	#N/A
Interest Rates (%)	3.5000	5.2500	5.2500	0.4800
Oil (Nymex)	61.7900			

This Week's Research
 McInerney
 Kerry Group
 IL&P

Today's Research
 RBS

Today's Recommendation

RBS (£20.09) Full year results announced **Stuart Draper**
Target : £22.50 (20/12/06; previously £20.50, issued 23/11/06)

- Results announced : This morning, Royal Bank of Scotland announced its results for the year ended 31/12/06. Profit before tax and earnings per share of £9.41 bn and £2 respectively were ahead of the consensus forecasts of £9.35 bn and £1.95, and were both year on year increases of 14%, helped by a particularly strong performance from the group's Global Banking and Markets division.
- Dividend increase : The main surprise was that the full year dividend per share was increased by 25% to 90.6p, after the bank's shareholders expressed a preference for capital to be returned to them through increased dividends. As a result, the group's payout ratio was increased to 45%, resulting in a final dividend of 66.4p going ex on 07/03 and being paid on 08/06.
- Credit quality : Crucially the rate of growth in UK retail bad debts, primarily unsecured, slowed to 11% in H2 2006, from 18% in H1 2006, helped by RBS' lower than sector average exposure to UK unsecured personal lending of c.7% of global loan book. The group's full year net interest margin of 2.47% also showed some improvement on the H1 2006 comparative of 2.45%.
- Further upside : Following these results, the consensus forecast for 2007 eps should rise to c.£2.15, representing further 8% growth on the 2006 result of £2. As a result, our current 12 month target of £22.50 (12% further upside), only rates the shares at a sector average multiple of 10.5x consensus 2007 eps of £2.15. Given RBS' continued operational outperformance versus peers and its attractive strategic platforms for organic growth in the UK, Ireland, the US and China, such a sector average rating may prove overly conservative. When combined with a 2007 yield of c.4.8%, this provides an attractive total return from current levels.
- Attractive yield : In 2006, RBS confirmed that all of its growth targets could be achieved organically from its UK, Irish, US and Chinese operations, and that its return of capital to shareholders would continue. With RBS' Tier 1 ratio ending 2006 at 7.5%, there is sufficient capital available to fund the new 45% payout ratio. Based on a 2007 eps of £2.15, this would translate into a 2007 dividend per share of 96.75p, representing a yield of 4.8% on the current share price. RBS' share price has risen by 17% since our BUY note of 04/08/06 : **BUY**.

Breaking News

Grafton reports a 30% rise in pretax profit

Grafton today reported a 30% rise in its full-year pretax profit as it said its Irish business produced excellent results, adding it's trading since the start of the year has been satisfactory. The builders merchants and DIY group said its pretax profit rose to €249.4m for the year to December 31, 2006, from €192.2m the same time last year as sales increased to €2.93bn from €2.63bn a year ago. The merchandising business's sales increased by 18% to €816.6m, while revenue from the retailing division grew by 14% to €311.7m. Grafton said its UK sales moved to €1.73bn from €1.60bn and operating profit increased by 6% to €114.6m. The return to like-for-like sales and profit growth in the UK merchandising market in the second half resulted in growth in full-year operating profit, the company added.

Aviva posts a 12% rise in profits

Aviva posted a 12% rise in year profits today, broadly in line with forecasts, helped higher by a strong performance at home in both life and general insurance. Aviva made a failed merger approach for UK rival Prudential a year ago and bought U.S. insurer AmerUs last summer, but the insurer said it would focus on organic growth in 2007, though bolt-on acquisitions were possible. Aviva's 2006 headline operating profit rose to £3.25bn. Profit in Aviva's worldwide life business rose 12% to £2.03bn, while the operating profit for its general insurance units climbed 8% to £1.68bn.

United Drug's new acquisitions performing ahead of expectations

United Drug announced yesterday that profits in Q1 are ahead of the same period last year. At the group's AGM in Dublin the group also said that new acquisitions are performing ahead of expectations. CEO Mr Kells said that the company would effectively manage the first phase of the Irish Government review of the drug pricing agreement will take effect with a reduction in the price of off patent branded medicines. He also said that new acquisitions are performing ahead of expectations and that they expect to make further progress during the year with our strategy of developing United Drug into a broadly based healthcare services group.

Business Press

- Rose digs a hole with talk of a Sainsbury bid (FT)
- C&C moves to revive Magners (FT)
- Airtricity to appeal decision (IT)
- IL&P sees after-tax profits rise 18% (IE)

Investment Press

- Markets: A characteristic of financial bubbles is that, with the benefit of hindsight, they look ridiculous, sometimes embarrassingly so.



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