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EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7916	↓ -12	-0.16%	11.0	7.50%
FTSE 100	5844	↑ 53	0.91%	13.5	4.01%
DAX 30	5867	↑ 71	1.22%	15.0	8.47%
DOW	11054	↑ 60	0.55%	19.5	2.51%
NASDAQ	2315	↑ 33	1.46%	15.6	4.96%
S&P	1291	↑ 11	0.83%	21.0	3.71%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.1939	0.6828	138.6500
Dollar	1.1939	1.0000	1.7486	116.1100
Sterling	0.6828	1.7486	1.0000	203.0200
Yen	138.6500	116.1100	203.0200	1.0000
Oil (Nymex)	61.9700			

This Week's Research
Vodafone
Kerry Group
Paddy Power

Today's Research
HBOS

Today's Recommendation

HBOS (£10.18) Upgrading price target Stuart Draper

- 2005 results : HBOS has reported a strong set of results for the year ended 31/12/05, with profit before tax and eps of £4.842 bn and 86.4p respectively showing year on year growth of 13% and 11%. Yesterday's healthy share price correction was probably due to the results only meeting rather than beating consensus forecasts and containing no positive surprises, like RBS' and Lloyds' results had done in recent days.
- Robust fundamentals : However, the bank's fundamentals remain very solid, with the 2005 net interest margin actually improving to 1.8% from 1.79% for 2004, the UK retail bad debts charge rising by less than expected in H2 2005, and the bank's cost/income ratio improving to 42.2% from 44.7%, driven by underlying cost growth of only 2.5%.
- Mortgage recovery : Even if HBOS continues to target a lower share of new UK mortgage lending (c.15%) than its current market share of 21%, it still is the biggest beneficiary from the recovery in the UK housing market which has only started to take hold in recent months.
- Accelerating growth : The main area of positive surprise in HBOS' December trading statement was its sales performance in insurance and investment products, where "bancassurance is leading the way in Investment". HBOS' insurance and investment profit growth should accelerate from c.7% for 2005 to 9% for 2006 to 11% for 2007, driven by an ability to distribute to high net worth customers through its St James Place subsidiary, driven by its strong position in the UK group pensions market and driven by increasing UK retail demand for investment products.
- Buyback support : The other area of positive surprise in the December trading statement was the continuation of the bank's share buyback programme, which has been set at £750m for 2006, as was initially the case for last year's £1 bn share buyback programme. HBOS' 2005 year end tier 1 ratio at 8.1% provides plenty of scope for further share price support from additional share buybacks this year.
- Further upside : Our new 12 month price target for HBOS of £11 (8% further upside) is based on 10x 2007 eps of £1.10, and represents an earnings driven upgrade from our previous share price target of £10.50. Investors will also be paid a dividend yield of c.3.8% for waiting for this upside to be achieved, giving the attractive total 12 month return of 11.8%. HBOS' share price has risen by 17% since our BUY note of 06/12/05 : **BUY**.

Breaking News

Aviva posts 29% rise in profits for 2005

Aviva, Britain's biggest insurer, reported a 29 % rise in 2005 pre-tax operating profits on the back of a best-ever performance at its general insurance unit. Aviva said operating profit rose to £2.90 billion, from £2.22 billion in 2004. That was well above the £2.655 billion average forecast by analysts. Statutory profit, on which the dividend is based, was £2.13 billion in 2005, up 25% from the previous year. The company said it was recommending a total dividend for the year of 27.27p, an increase of 7.5%.

Adidas posts Q4 net loss, misses forecasts

Adidas has reported a fourth-quarter net loss of €4m, missing analysts expectations, mainly due to the costs of its takeover of US rival Reebok. Fourth-quarter sales rose 27.2% to €1.521 billion, lifted by a strong demand for soccer products ahead of the World Cup. This beat the average analyst forecast of €1.3 billion. Adidas said its orders were up 15% at the end of 2005 as the upcoming Summer 2006 World Cup boosted demand for Adidas products.

William Hill posts 5% rise in profits, online gambling strong

William Hill's 2005 earnings were in line with previous guidance, with profit up 5% to £264m. Retail profit came in at £181.6m, including a £15m contribution from the Stanley estate. Trading in the first eight weeks of the year was mixed with better football results negated by poorer horse racing results. The online channel has continued to grow strongly, with the interactive gross win increasing by 16.2% to £123.3m, as profit grew 18% to £61m.

Business Press

- Shares in Glanbia fall as profits fall in wake of energy rises (IT)
- Poor betting results knock Paddy Power (IT)
- HBOS in £100m expansion move (FT)
- Staff may hold the key to the future of Eircom (II)

Investment Press

Aviva leads FTSE 100 advance

- Aviva shares led the FTSE 100 gainers in early trade in London today as equity markets opened strongly higher. Insurers supported the opening rally along with oil and gas stocks which rose on further overnight gains in crude oil prices.



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