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| EQUITIES | Close | Change | % +/- | P/E '07 | YTD |
|----------|-------|--------|-------|---------|--------|
| ISEQ | 7647 | ↑ 120 | 1.59% | 11.0 | 3.84% |
| FTSE 100 | 5932 | ↑ 51 | 0.87% | 12.4 | 5.58% |
| DAX 30 | 5681 | ↑ 84 | 1.50% | 15.0 | 5.04% |
| DOW | 11200 | ↑ 74 | 0.67% | 19.5 | 3.87% |
| NASDAQ | 2079 | ↑ 17 | 0.82% | 15.6 | -5.74% |
| S&P | 1279 | ↑ 8 | 0.60% | 21.0 | 2.69% |

| CURRENCIES & RATES | Euro | Dollar | Stg | Yen |
|--------------------|---------|--------|--------|----------|
| Euro | 1.0000 | 1.2765 | 0.6801 | 146.4000 |
| Dollar | 1.2765 | 1.0000 | 1.8768 | 114.7000 |
| Sterling | 0.6801 | 1.8768 | 1.0000 | 215.2800 |
| Interest Rates (%) | 2.5000 | 5.2500 | 4.5000 | 0.4800 |
| Oil (Nymex) | 75.8100 | | | |

This Week's Research
Ryanair
HBOS
AIB

Today's Research
Lloyds TSB

Today's Recommendation

Lloyds TSB (£5.28) Credit quality improving **Stuart Draper**
Target : £5.60 (20/06/06; previously £5.70, issued 24/02/06)

- H1 results : Lloyds' results for the 6 months ended 30/06/06 showed profit before tax of £1.75 bn, slightly ahead of the consensus forecast of £1.72 bn, and a year on year increase of 8%. However, the 16% rise in the UK retail bad debt charge to £632m caused the share price to fall by c.1% yesterday.
- Credit quality : However, the bank confirmed that there would be no further UK retail bad debt charge increase in H2 2006 as tightened lending criteria in the past 2 years start to feed through. We are still forecasting 2% full year eps growth in 2006 to 48p and 6% eps growth in 2007 to 51p. Lloyds also recently reached agreement with its pension scheme trustees to fund its actuarial deficit of £1.5 bn over the next 10 years.
- Cost savings : On the positive side, the group's programme of efficiency improvement remains on course to deliver net savings in 2006 of c.£30m. As a result, each of the bank's 3 operating divisions delivered H1 2006 revenue growth in excess of cost growth. Our current 12 month price target of £5.60 (6% upside), is based on 11x forward eps of 51p. When combined with the current dividend yield of c.6.1%, this provides an attractive 12 month total return of 12.1% from current levels.
- Upcoming dividend : Approximately one third of this annual dividend (2% yield and 10.7p per share) will go ex next Wednesday, 9th August. Sales volumes through the bank's 3 different sales channels of branches, telephone banking and internet banking all showed year on year growth, particularly bancassurance savings and investment product sales. Scottish Widows also delivered strong profit growth.
- Takeover potential : Our view this year, is that with the bank's management not as new to the job as they were in January 2005 (when the previous takeover rumours were in circulation), having joined after June 2003, that there is greater potential now for a takeover approach being made, given Lloyds' limited stand-alone growth prospects. This is because Lloyds now has several non-British executives in many key positions, who may be more open to considering an international merger.
- Limited downside : The UK is also an attractive banking market, with high returns on equity and a shareholder-friendly culture. Therefore, with significant further upside on a stand-alone basis, an attractive dividend yield of c.6.1%, and an above average probability of receiving a takeover approach this year, we re-iterate our current BUY recommendation : **BUY**.

Breaking News

Barclays H1 profit up 37%

Barclays has reported a 25% rise in first-half net profit as strong performances at its investment banking and asset management units more than offset rising impairment in retail banking. Barclays also said that impairments, mainly at its Barclaycard business, are expected to stabilise after rising 50% in the first half. Net profit rose to £2.31bn in the six months from £1.84bn in the first half of last year. Pretax profit rose 37% to £3.67bn from £2.69bn a year earlier, and was well ahead of forecasts of £3.40bn. EPS rose 25% to 36.3p from 29.1p and also beat market expectations. Barclays also increased its interim dividend 14% to 10.5 pence. The bank said it expects retail credit conditions in the U.K. to remain "challenging" in the second half of 2006 amid continued impairment and the growth in personal bankruptcies.

UK merchanting sector stabilises

The latest set of data from the UK merchanting sector has provided some positive indicators for Grafton. The UK builder's merchanting sales index has shown that the sector has stabilised, with sales for Q2 down 1.1% year on year, compared to a decline of 3.5% in Q1. The data backs up comments from Travis Perkins earlier this week, which highlighted improved merchanting sales in the second quarter.

Fyffes peer experiencing most difficult environment in ten years

Fresh Del Monte said on Tuesday that it slid to a loss in the latest second quarter from year-ago profit due to large charges, higher fuel and raw materials costs, and lower fresh produce sales. Quarterly losses totaled \$17.8m, or 31c per share, compared with net income of \$46.5m, or 80c per share, a year ago. Gross profit fell 31 percent to \$71.3 million, as a result of continued higher costs related to fuel, raw materials, packaging, labour and transportation. The company said it believes fuel, transportation and raw material costs will continue to affect its industry during the remainder of 2006.

Business Press

- Standard Life's Irish sales up 64% (IT)
- Food sector hit by rising energy costs (IT)
- Icon rides the upturn in clinical research arena (II)

Investment Press

- Global mining M&A: Xstrata has won the battle for Falconbridge and is now 'going through the formalities'. One of those will be a sizable rights issue to help finance the deal, which sets Xstrata apart from its mining peers.



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