



July 3, 2007

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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9332 ↑	25	0.27%	14.1	-0.81%
FTSE 100	6591 ↓	-17	-0.26%	13.2	5.94%
DAX 30	7958 ↓	-49	-0.61%	14.2	20.64%
DOW	13535 ↑	127	0.95%	15.2	8.60%
NASDAQ	2632 ↑	29	1.12%	26.1	8.98%
S&P	1519 ↑	16	1.07%	15.9	7.13%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3625	0.6753	167.1000
Dollar	1.3625	1.0000	2.0181	122.4700
Sterling	0.6753	2.0181	1.0000	247.4500
Interest Rates (%)	4.0000	5.2500	5.5000	0.5000
Oil (Nymex)	71.0900			

This Week's Research
 C&C Group

Today's Research
 Royal Bank of Scotland

Today's Recommendation

RBS (£6.24) Return increasing, risk reducing **Stuart Draper**
 Target : £7.20 (03/07/06; previously £7.50, issued 20/12/06)

- LaSalle catalyst : Following the Dutch Advocate General's opinion last week, it now appears most likely (c.75% probability) that the Dutch Supreme Court will within the next 2 weeks rule that LaSalle was not a major asset of ABN (over 30% of group) and so could be sold to Bank of America (BOA) without shareholder approval. If this happens, then the most likely outcome is that Royal Bank of Scotland (RBS) does not re-enter talks with BOA with regard to splitting LaSalle, but instead in conjunction with its consortium makes a new bid for ABN ex LaSalle. A new reduced bid for ABN ex LaSalle would require significantly less new RBS equity issuance than the c. €22.2 bn expected under the previous bid.
- Risk reducing : This is because in addition to LaSalle, RBS is interested in ABN's Asian business and its wholesale bank. It has ruled out a rights issue as the method for issuing new equity, instead likely to favour a placing, similar to the new equity placed at £16.20 (£5.40 equivalent) 3 years ago to help fund the Charter One acquisition. Given that RBS' shares are currently trading at 8.7x consensus current year eps of 72p, with a 5.4% current year dividend yield, any significant discount to the current market price is unlikely to be necessary.
- Greater synergies : Such a consortium deal is also likely to generate greater synergies than the Barclays / ABN combination, as there would also be substantial synergies generated between Santander and ABN's Brazilian operations, and Fortis and ABN's Dutch operations. Given RBS' excellent track record of generating substantial synergies from its previous NatWest and Charter One acquisitions, a successful acquisition of ABN ex LaSalle is likely to be at least medium term earnings enhancing for RBS.
- Return increasing : One of the explanations given for why RBS has traded in recent times at a c.12% discount to the UK sector average is the risk of it doing a major acquisition. If it were successful in acquiring ABN, then this discount should start to close as it would have to spend several years integrating ABN before doing another major deal. Even without any ABN synergies, RBS is expected to generate 2007 earnings growth of 8%, and our current 12 month price target of £7.20 (15% upside) is based on 10x consensus 2007 eps of 72p. The shares will also pay an attractive dividend yield of 5.4% for waiting for this upside to be achieved : **BUY**.

Breaking News

Waterford Wedgewood completes €100m placing

Waterford Wedgewood announced today that it had completed its €100m sale of preferred shares. Stockholders purchased 68% of the total shares offered, and the rest were purchased under an underwriting agreement by Birchfield, a company part-owned by Waterford Wedgewood Chairman Tony O'Reilly. Waterford Wedgewood CEO Peter Cameron reiterated that the net proceeds from the share sale will further the group's existing efforts to drive sales and profitability.

Elan's Tysabri recommended by NICE for Multiple Sclerosis

Elan and its partner Biogen have announced that the UK's National Institute for Health and Clinical Excellence (NICE) has recommended funding its Tysabri multiple sclerosis drug for patients with a recurring form of the disease and is the first time reimbursement of a drug for a neurological disorder has been recommended. NICE evaluates medicines for cost-effectiveness and the National Health Service (NHS) does not fund treatment without the panel's backing. Tysabri is the first treatment to be specifically licensed for highly active RRMS. Professor Gavin Giovannoni from the Royal London Hospital commented that Tysabri represents a significant advance in MS treat, that offers real hope of delaying the progression of disability and reducing the frequency of relapses.

Scottish & Newcastle to meet full year expectations

Scottish & Newcastle issued a trading statement wherein it said it expects its results to meet expectations. The group said that branded beer growth continues its momentum with its brands outperforming in their respective markets. The company commented that its strategy of delivering value growth in mature markets and volume growth in developing markets continues to deliver. In the UK, Scottish & Newcastle said that in the first five months of 2007, its beer and Cider market share has accelerated, driven by increases in investment in marketing, and a portfolio approach that is unmatched by its competitors. The group did comment however that in Beer it expects a relative decline in sales for the UK market in the first half partly due to bad weather conditions.

Business Press

- CRH cements 25% profit rise (IE)
- Investment into Ireland up 10% (IT)
- William Hill on to a winner as outlet expansion continues (IE)

Investment Press

- Sony Ericsson: Joint ventures tend to be disliked by investors. With a success rate of about 50 per cent - little better than modern marriages - that scepticism is healthy. Yet handset maker Sony Ericsson, formed in 2001, is a rare exception to the rule.

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